Exhibit 75

KPMG

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements and Required Supplementary Schedules

June 30, 2013

(With Independent Auditors' Report Thereon)

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

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KPMG LLP
American International Plaza
Suite 1100
250 Muñoz Rivera Avenue
San Juan, PR 00918-1819

Independent Auditors' Report

The Board of Trustees
Employees' Retirement System of
the Government of the Commonwealth of Puerto Rico:

We have audited the accompanying financial statements of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the System), which comprise the statement of plan net position as of June 30, 2013, the related statement of changes in its plan net position for the year then ended, and the related notes to the financial statements, which collectively comprise the System's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net position of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico as of June 30, 2013, and the changes in plan net position for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of a Matter

As discussed in note 1 to the basic financial statements, the System's unfunded actuarial accrued liability and funded ratio for pension benefits as of June 30, 2013 was approximately $22,981 million and 3.1%, respectively. In the opinion of management, based on information prepared by consulting actuaries, the System's assets will be less than its obligations (including bonds payable but excluding unfunded actuarial accrued liability) by the fiscal year 2015. In addition, annual cash flow estimates for the foreseeable future are presently estimated to continue to reduce the net position unless other measures are taken. Further, as described in note 10, future employers' contributions have been pledged for the payment of debt service, consequently further depletion of System's assets could result in inability to pay benefits and bonds.

Other Matters

Required Supplementary Information

U.S. Generally accepted accounting principles require that the information in the Management's Discussion and Analysis, Schedule of Employers' Contributions, and Schedule of Funding Progress on pages 3–14 and 51–53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

San Juan, Puerto Rico
June 30, 2014

Stamp No. E125997 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis

June 30, 2013

(Unaudited)

Introduction

The Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the System) administers retirement and other plan member benefits, such as personal, cultural and mortgages loans, occupational and nonoccupational disability annuities and death benefits. The System also administers postemployment healthcare benefits provided by the Commonwealth of Puerto Rico for its retired members. The System presents in the Management's Discussion and Analysis an overview of the annual basic financial statements and provides a narrative discussion and analysis of the financial activities for the fiscal year ended June 30, 2013. The financial performance of the System is discussed and analyzed within the context of the accompanying basic financial statements and disclosures.

Overview of the Basic Financial Statements

Management's discussion and analysis introduces the System's basic financial statements. The basic financial statements include the statement of plan net position, statement of changes in plan net position, and notes to the basic financial statements. The System also includes additional information to supplement the basic financial statements.

Statement of Plan Net Position and Statement of Changes in Plan Net Position

Both of these statements provide information about the overall status of the System. The System uses the accrual basis of accounting to prepare its basic financial statements.

The statement of plan net position includes all of the System's assets and liabilities, with the difference reported as net position held in trust for pension benefits. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the System as a whole is improving or deteriorating.

The statement of changes in plan net position reports the change in the System's net position held in trust for pension benefits during the year. All current year additions and deductions are included regardless of when cash is received or paid.

Notes to Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential for an understanding of the data provided in the statements of plan net position and changes in plan net position.

Required Supplementary Information

The required supplementary information consists of two schedules and related notes concerning the funded status of the benefits administered by the System.

Financial Highlights

The System provides retirement benefits to employees of the Commonwealth. The System's total assets as of June 30, 2013 and 2012, amounted to $3,996 million and $4,480 million, respectively.

**EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT
OF THE COMMONWEALTH OF PUERTO RICO**
(A Component Unit of the Commonwealth of Puerto Rico)

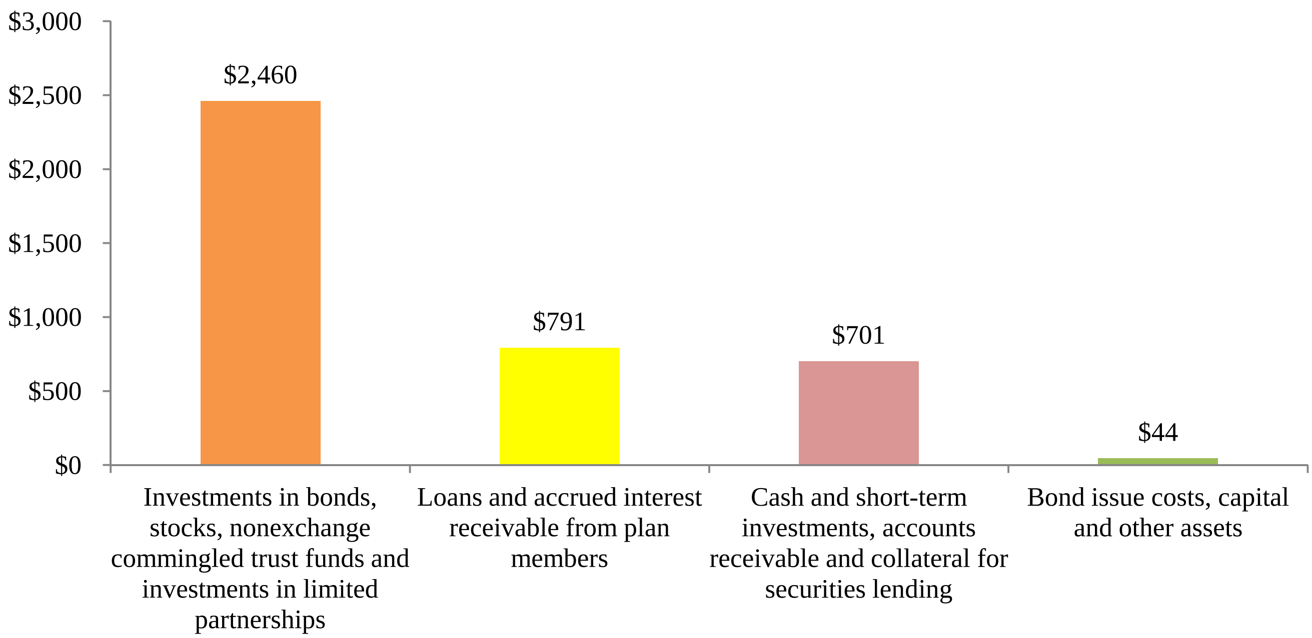
Management's Discussion and Analysis

June 30, 2013

(Unaudited)

As of June 30, 2013, the System's total assets consist of the following:

- $2,405 million of investments in bonds, stocks and nonexchange commingled trust funds
- $55 million in investments in limited partnerships
- $791 million in loans and accrued interest receivable from plan members
- $577 million in cash and short-term investments, and accounts receivable, plus $124 million in collateral for securities lending
- $44 million in bond issue costs, capital and other assets



As of June 30, 2012, the System's total assets consist of the following:

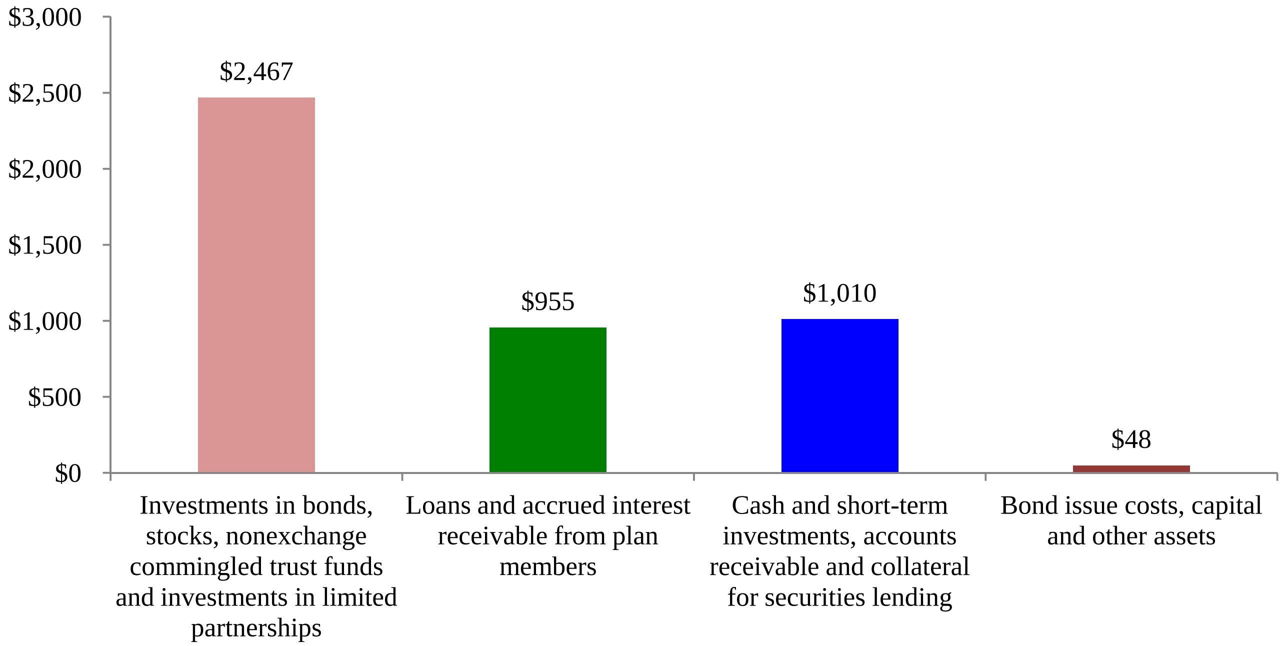
- $2,410 million of investments in bonds, stocks and nonexchange commingled trust funds
- $57 million in investments in limited partnerships
- $955 million in loans and accrued interest receivable from plan members
- $955 million in cash and short-term investments, and accounts receivable, plus $55 million in collateral for securities lending
- $48 million in bond issue costs, capital and other assets

**EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT
OF THE COMMONWEALTH OF PUERTO RICO**
(A Component Unit of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis

June 30, 2013

(Unaudited)



- The System's total assets exceeded total liabilities by $731 million (plan net position) for the current fiscal year compared to the prior year, for which assets exceeded liabilities by $1,238 million.
- Loans to plan members amounted to $791 million as of June 30, 2013, compared to $955 million as of June 30, 2012.
- The System's funded ratio of the actuarial accrued liability for pension benefits at June 30, 2013 was 3.1%, compared to 4.5% at June 30, 2012.
- The medical insurance plan contribution, which constitutes the other postemployment healthcare benefits, is financed by the Commonwealth on a pay-as-you-go basis and consequently is unfunded.

The following schedules present comparative summary financial statements of the System's plan net position and changes in plan net position for fiscal years 2013 and 2012:

Comparative Summary of Plan Net Position – Pension Benefits
(Dollars in thousands)

	2013	2012	Total dollar change	Total percentage change
Assets:				
Cash and short-term investments and total accounts receivable	$ 701,032	1,009,873	(308,841)	(30.6)%
Investments	2,459,874	2,466,733	(6,859)	(0.3)
Loans and interest receivable from plan members – net of allowance	791,161	955,057	(163,896)	(17.2)
Capital assets and other	43,836	48,119	(4,283)	(8.9)
Total assets	3,995,903	4,479,782	(483,879)	(10.8)
Liabilities:				
Accounts payable and accrued liabilities	13,905	27,718	(13,813)	(49.8)
Securities lending obligations	124,411	54,870	69,541	126.7
Bond interest payable	13,876	13,877	(1)	—
Funds of mortgage loans and guarantee insurance reserve for loans to plan members and investments purchased	7,483	90,735	(83,252)	(91.8)
Bonds payable	3,051,189	3,026,593	24,596	0.8
Other liabilities	53,697	28,457	25,240	88.7
Total liabilities	3,264,561	3,242,250	22,311	0.7
Net position held in trust for pension benefits	$ 731,342	1,237,532	(506,190)	(40.9)%

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis

June 30, 2013

(Unaudited)

Comparative Summary of Changes in Plan Net Position – Pension Benefits

(Dollars in thousands)

	2013	2012	Total dollar change	Total percentage change
Additions:				
Contributions:				
Employers	$ 424,704	388,103	36,601	9.4%
Participating employees	322,528	316,178	6,350	2.0
Special benefits	203,943	193,351	10,592	5.5
Net investment income	245,022	272,382	(27,360)	(10.0)
Other income	22,035	24,727	(2,692)	(10.9)
Total additions	1,218,232	1,194,741	23,491	2.0
Deductions:				
Benefits paid to participants	1,430,712	1,376,892	53,820	3.9
Refunds of contributions	52,307	52,228	79	0.2
Interest on bonds payable	192,230	190,737	1,493	0.8
General and administrative	33,078	45,393	(12,315)	(27.1)
Other expenses	16,095	15,770	325	2.1
Total deductions	1,724,422	1,681,020	43,402	2.6
Decrease in plan net position	$ (506,190)	(486,279)	(19,911)	4.1%

Comparative Summary of Plan Net Position Analysis – Pension Benefits

The basic financial statements of the System for the fiscal year ended June 30, 2013, present a decrease in net assets of approximately $506 million, when compared to the prior fiscal year. This was mostly the result of a decrease in loans and interest receivable from plan members of $164 million and a decrease in cash, short-term investments and total accounts receivable of $309 million. The Board of Trustees approved the sale of personal loans. During the years ended June 30, 2013 and 2012, personal loans with principal balances amounting to approximately $88 million and $225 million, respectively, were sold to two financial institutions.

Participating employees' and employers' contributions increased by approximately $43 million, from $704 million during fiscal year 2012 to $747 million during fiscal year 2013. The System recognized a net appreciation in the fair value of investments of $121 million during 2013, which represents an increase of $22 million from the net appreciation of $99 million recognized in 2012.

(Continued)

During fiscal year 2007, the Board of Trustees approved the issuance of bonds payable to increase the funds available to pay pension benefits to certain beneficiaries and to reduce the unfunded accrued actuarial liability. As of June 30, 2013, bonds payable amounted to $3,051 million.

Other Postemployment Healthcare Benefits

Other postemployment healthcare benefits paid during the fiscal year 2013 amounted to $92 million, a decrease of 3% when compared to the $95 million paid during fiscal year 2012.

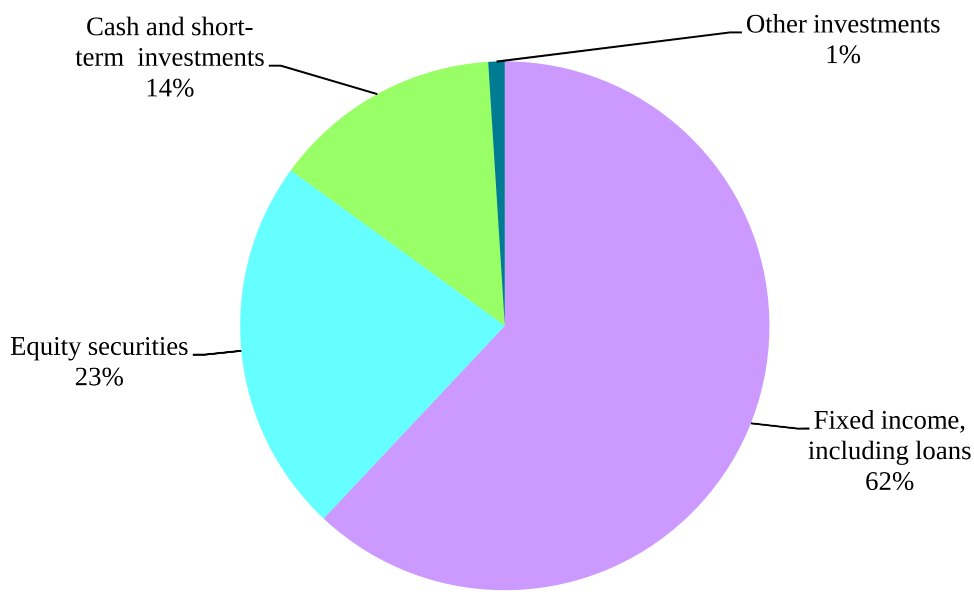
Financial Analysis of the System

As of June 30, 2013 and 2012, the System held approximately $791 million and $955 million, respectively, in loans and interest receivable from plan members, which represents 24% and 28%, respectively of the total investment portfolio, including loans. As of June 30, 2013, loans and interest receivable from plan members consist of $160 million in mortgage loans, $528 million in personal loans, $68 million in cultural trips loans, and $40 million in accrued interest receivable, less $4 million in allowance for adjustments and losses in realization. As of June 30, 2012, loans and interest receivable from plan members consist of $153 million in mortgage loans, $695 million in personal loans, $72 million in cultural trips loans, and $40 million in accrued interest receivable, less $5 million in allowance for adjustment and losses in realization. As of June 30, 2013 and 2012, the fair value of the System's investment in limited partnerships amounted to $55 and $57 million, respectively, which represents approximately 3% of the investment portfolio, as of June 30, 2013 and 2012.

The System earns additional investment income by lending investment securities to brokers via its custodian's securities lending program. The brokers provide collateral to the System and generally use the borrowed securities to cover short sales and failed trades. The cash collateral received from the brokers is invested in a short-term investment fund in order to earn interest. For the years ended June 30, 2013 and 2012, net income from the securities lending activity amounted to approximately $115,000 and $139,000, respectively.

Investment Portfolio and Capital Markets Overview

As of June 30, 2013, the System's asset allocation is 62% in fixed-income investments, including loans receivable, 23% in equity securities, 14% in cash and short-term investments, and 1% in other investments as shown in the following chart:



Economy and Capital Markets Overview

The 2013 Fiscal Year started off strong due in large part to the deployment of monetary support from central banks across the globe. On the heels of a volatile spring and a steady flow of negative economic news, central banks took action. Notably, the Federal Reserve launched the much anticipated third round of quantitative easing (QE3) and the European Central Bank (ECB) initiated the Outright Monetary Transactions (OMT) program. The monetary stimulus drove global equity markets higher as relief set in that central bank support was present. However, the rally in the United States soon stalled as the positive sentiment gave way to concerns surrounding the United States presidential election and looming fiscal cliff. Meanwhile, international markets continued to rally into the second half of the fiscal year, as economic conditions improved and ECB President, Mario Draghi, committed to do "whatever it takes" to keep the Euro in tact. In the United States, as the political uncertainty passed, equity markets surged to new all time highs, even amongst increased taxes and threat of the sequester. Overseas, despite disappointing elections in Italy, the Cyprus bailout and a credit downgrade in the United Kingdom, markets continued their modest upward trend. The Bank of Japan launched its own unprecedented monetary and fiscal stimulus, providing another boost to investor confidence. The fiscal year ended with a spike in volatility due to comments from Ben Bernanke suggesting an easing of monetary support if economic

conditions continued to improve. Global equities quickly retreated and bond yields spiked before investors were somewhat calmed after the Federal Reserve clarified that interest rates would remain low for the foreseeable future.

As noted above, significant attention was paid to the comments from Ben Bernanke and the Federal Open Markets Committee (FOMC) throughout the year. The fiscal year began with the announcement of QE3, which authorized the Federal Reserve to purchase agency mortgage backed securities at a pace of $40 billion per month. Together with Operation Twist, the programs increased the Federal Reserve holdings of longer dated securities by approximately $85 billion per month. Additionally, the FOMC maintained the Federal Funds Target Range at 0.00 – 0.25% throughout the year. However, in January, the Federal Reserve announced it would no longer provide calendar guidance on when they expect to raise rates. Instead, parameters consisting of unemployment below 6.5% or inflation reaching 2.5%, would initiate a rate hike. The fiscal year ended with reassurance that the Federal Reserve is committed to the economic recovery, but a broad understanding that tapering of the asset purchase program is on the horizon.

With support from the Federal Reserve and mostly positive economic news, domestic equity markets trended upwards for the majority of the fiscal year, returning 21.5%. Developed international markets posted an 18.6% return, modestly trailing the United States equity markets. Emerging markets were a notable underperformer, returning 2.9% as export demand weakened and concerns surrounding China surfaced. The broad United States fixed income market declined a modest 0.7% over the year, with most of the adverse returns coming in the final months. The yield on the 10-Year United States Treasury was mostly steady throughout the year, but spiked 85 basis points in the last two months due to fears of the Federal Reserve's tapering of the asset purchasing program.

The table below shows the fiscal year and quarter returns of major indices.

Industry Indices Performance Overview

Indices	FY 2012-13	First Quarter FY 2013	Second Quarter FY 2013	Third Quarter FY 2013	Fourth Quarter FY 2013
Dow Jones UNITED STATES Total Stock Market Index	21.5%	6.2%	0.2%	11.1%	2.8%
S&P 500	20.6	6.4	(0.4)	10.6	2.9
S&P/Citigroup Large Growth	16.8	6.4	(2.0)	9.3	2.5
S&P/Citigroup Large Value	25.0	6.3	1.6	12.0	3.4
Russell 3000	21.5	6.2	0.2	11.1	2.7
Russell 2000 Index	24.2	5.3	1.9	12.4	3.1
Russell 2000 Growth	23.7	4.8	0.4	13.2	3.7
Russell 2000 Value	24.8	5.7	3.2	11.6	2.5
MSCI EAFE	18.6	6.9	6.6	5.1	(1.0)
MSCI Emerging Markets	2.9	7.7	5.6	(1.6)	(8.1)
Barclays Aggregate Bond Index	(0.7)	1.6	0.2	(0.1)	(2.3)

Total Fund Performance

The System generated a return of 7.8% during the 2012-2013 fiscal year, outperforming its policy benchmark by 70 basis points. Outperformance was primarily a result of being overweight United States and international equities relative to the long-term target weights as equities overall outperformed fixed income. The overweight allocation to equities was a consequence of the System gradually de-risking its investment program (shifting from equities into bonds). This transition was concluded at the end of the fiscal year. The System's total investments, including loans as of June 30, 2013 totaled $3,251 million.

United States Equity Overview for the Fiscal Year 2013

United States stocks as measured by the Dow Jones United States Total Stock Market Index generated a return of 21.5% during the fiscal year. All sectors produced positive returns during the fiscal year led by consumer discretionary and financials, which were the top performing sectors. From a style perspective, value stocks outpaced growth stocks across all market caps. On a size basis, small cap stocks outperformed their large cap counterparts.

The System's domestic equity component generated a return of 21.4% during the fiscal year, performing in line with its' benchmark, the Russell 3000 Index. Approximately $46 million was redeemed from the SSgA S&P 500 Index Fund and was liquidated as part of portfolio rebalancing and to meet the cash needs of the System. As of June 30, 2013, the System's domestic equity assets totaled $617 million and represented approximately 19% of the System's total investments, including loans.

International Equity Overview for the Fiscal Year 2013

International equity stocks, as measured by the MSCI EAFE Index, generated a return of 18.6%. The index provided positive performance for three consecutive quarters as monetary stimulus specifically from the ECB and The Bank of Japan provided support. The fourth quarter experienced a slight pullback as continued concerns regarding the strength of the economic recovery outside of the United States negatively impacted results. Europe ex-United Kingdom and Japan were the strongest performing regions over the fiscal year.

During the fiscal year, the System's international equity component generated a return of 14.6%, outperforming the component's benchmark by 140 basis points. The SSgA ACW ex-United States Index Fund performed in line with its' benchmark. Approximately $55 million was redeemed from the component during the fiscal year as part of portfolio rebalancing and to meet the cash needs of the System. The SSgA ACW ex-U.S. Index Fund was added in July 2012 as part of the portfolio's shift to passive equity exposure. (Additional details are provided below in the Other Investments and Transactions section). At the end of the fiscal year, the component had $244 million in assets, representing 7% of the System's total investments, including loans.

United States Fixed Income Overview for the Fiscal Year 2012

The United States fixed income market, as measured by the Barclays Aggregate Bond Index, produced positive results for the first two quarters of the period only to reverse gains in the second half resulting in a loss of 0.7% during the fiscal year. All underlying sectors generated negative returns during the period, with the exception of

corporate, asset-backed, and commercial mortgage backed securities. Long-term government bonds experienced the largest decline, while shorter-term bonds produced modest positive results.

The System's fixed income component generated a return of 1.2% during the one year ending June 30, 2013, underperforming the component's benchmark by 40 basis points. Taplin, Canida, & Habacht, Popular, and Mesirow contributed to outperformance, while Santander detracted from results. At the end of the fiscal year, fixed income assets totaled $1,398 million, consisting of approximately 43% of the System's total investments, including loans. Approximately $131 million was redeemed from the component during the fiscal year as part of portfolio rebalancing and to meet the cash needs of the System.

In expanding the portfolio's active intermediate credit mandate, Chicago Equity Partners and Barrow Hanley were added to the portfolio during July 2012. Prior to this, the portfolio only had one other active intermediate credit manager, Taplin, with the majority of intermediate credit exposure obtained through the SSgA Intermediate Credit Index Fund.

Other Investments and Transactions

As of June 30, 2013, the System held $791 million in loans to participants which represented 24% of total investments, including loans. Loan balances as of June 30, 2013 were less than the $955 million held one year ago.

At the end of the 2013 fiscal year, the System had some exposure to limited partnerships of private equity investments which were valued at approximately $55 million and represented 2% of the System's total investments, including loans.

Funding Status

The System was created by Act No. 447 of May 15, 1951 and, since its inception, lacked proper planning. The levels of contributions were relatively low and still remain low in comparison to the level of benefits. In addition, all retirement systems in place before 1951 were merged into the System, which then had to absorb all of their unfunded liabilities. Afterwards, in 1973, the benefits structure was enhanced without the appropriate increase in contribution levels. As more people joined the government labor force and then retired under the new enhanced benefit structure, the gap between the assets available to pay benefits and the actuarial obligation started its steeping course.

In 1990, in an effort to withstand the increase in the unfunded liability, the benefit structure was modified to decrease the benefits and to postpone the retirement age from 55 to 65, in order to provide a more affordable benefit structure. Also, the level of contributions was raised and Act No. 447 was amended to provide that any increase in benefits would require actuarial studies and identification of the financing source.

Ten years later, the continuing increase in the unfunded liability required further action. As a result, the original defined benefit structure was closed to new plan members joining the System on or after January 1, 2000. To provide a retirement alternative, the pension benefit structure was further amended to provide for a cash balance program, similar to a cash balance plan, to be funded only by participating employees' contributions. That

program is known as the Retirement Savings Account Program (System 2000). Under System 2000, the employers' contributions continue at the same level as the original defined benefit structure, but are being used to fund the accrued actuarial liability of the original defined benefit structure that was closed. Also under System 2000, the disability benefits are to be provided through a private insurance long term disability program to those plan members that voluntarily elect to enroll in such program. On September 15, 2004, Act No. 296 was enacted to amend the dispositions of Act No. 305 of September 24, 1999 regarding disbursements and the disability benefits program. After the amendment, any plan member that leaves public service may request that the balance in his/her savings account be transferred to a qualified retirement vehicle such as an individual retirement account or a qualified retirement plan in Puerto Rico. Act No. 296 also provides flexibility on the establishment of the disability program; but still, the employees must finance the program.

Presently, the pension plan consists of three different benefit structures, which are administrated according to their specifications in the Act. For all plan members, excluding System 2000 participants, the level of contributions established by law is 8.275% of the employee salary. Under System 2000, employee contributions range from 8.275% to 10% of the salary, as specified by the employee. Under all structures, employers' contributions during the year ended June 30, 2013 were 11.275% of the employee salary.

On February 27, 2007, the System's administration and the Government Development Bank for Puerto Rico, acting as the System's fiscal agent, presented to the Board of Trustees a financial transaction for the issuance of pension funding bonds. The System authorized the issuance of one or more series of bonds (the Bonds) in order to increase the funds available to pay pension benefits and to reduce the unfunded accrued actuarial pension liability. The System pledged future employers' contributions to the payment of the Bonds, invested the proceeds of the Bonds, and used these investments and the earnings thereon to provide pension benefits to beneficiaries. On January 31, 2008, the System issued the first series of the Bonds, which consisted of approximately $1,589 million aggregate principal amount of Senior Pension Funding Bonds, Series A. On June 2, 2008, the System issued the second of such series of Bonds, which consisted of approximately $1,059 million aggregate principal amount of Senior Pension Funding Bonds, Series B. Finally, on June 30, 2008, the System issued the third and final of such series of Bonds, which consisted of approximately $300 million aggregate principal amount of Senior Pension Funding Bonds, Series C.

Nevertheless, the System's actuarial obligation continues its increasing trend as a result of the continuous increase in the pensioners' population and its longevity and the fact that incoming pensioners have higher salaries and consequently, they are entitled to even higher annuities. Since 1990, there have been no other increases in the employers' or participating employees' contributions to cope with those factors and, therefore, the level of contributions remains low in comparison to the level of pension benefits.

Market events, plus the continuous increase in the actuarial liability have had a negative effect over the System's unfunded actuarial accrued liability. Based on the last actuarial valuation at June 30, 2013 the System's unfunded liability for pension benefits amounted to $22,981 million, with a funding level of 3.1%. The unfunded liability for postemployment healthcare benefits amounted to approximately $1,483 million and was fully unfunded.

The bottom line is that the capital markets by themselves cannot solve the System's funding problem. In order to improve the System's funding ratio, the Commonwealth enacted Law 116 increasing the employers' contribution rate from 9.275% to 10.275% of employee compensation for the 2011-2012 fiscal year, 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. Other measures taken to improve the System's funding, include 1) improving the collection of late contributions by receiving such contributions directly from the Municipal Revenue Collection Center (known as CRIM by its spanish acronym) when a municipality fails to send their contributions within 30 days from the due date or from the Department of Treasury of the Commonwealth in the case of public corporations; 2) implementation of Act No. 70 establishing early retirement incentives; 3) revision of the Employee Personal Loan Policy by reducing personal and cultural loan amounts to $5,000 each, from $15,000 and $10,000, respectively; and 4) the receipt of $162.5 million in bonds issued by the Puerto Rico Sales Tax Financing Corporation (known as COFINA by its spanish acronym).

Capital Assets

The System's investment in capital assets as of June 30, 2013 and 2012, amounted to approximately $9 million and $12 million respectively, net of accumulated depreciation. Capital assets include land, building and improvements, construction in progress, and equipment. Building and improvements consist of the facilities in which the System has its operations.

Requests for Information

The financial report is designed to provide a general overview of the System's finances, comply with related laws and regulations, and demonstrate commitment to public accountability. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Commonwealth of Puerto Rico Government Employees and Judiciary Retirement Systems Administration, 437 Ponce de León Avenue, Hato Rey, Puerto Rico 00918.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Plan Net Position

June 30, 2013

(In thousands)

	Pension	Post employment healthcare benefits	Total
Assets:			
Cash and short-term investments:			
Deposits at commercial banks	$ 80,683	—	80,683
Deposits with Puerto Rico Department of Treasury	80,433	—	80,433
Deposits with Government Development Bank for Puerto Rico:			
Unrestricted	50,094	—	50,094
Restricted	35,811	—	35,811
Deposits with Bank of New York Mellon:			
Unrestricted	141,542	—	141,542
Restricted	26,503	—	26,503
Collateral from securities lending transactions	124,411	—	124,411
Total cash and short-term investments	539,477	—	539,477
Investments:			
Bonds and notes	1,351,177	—	1,351,177
Nonexchange commingled trust funds	1,053,555	—	1,053,555
Investments in limited partnerships	55,067	—	55,067
Stocks	75	—	75
Total investments	2,459,874	—	2,459,874
Total cash and investments	2,999,351	—	2,999,351
Loans and interest receivable from plan members – net of allowance for adjustments and losses in realization	791,161	—	791,161
Accounts receivable:			
Employers	131,033	—	131,033
Due from Commonwealth of Puerto Rico	2,940	—	2,940
Due from Retirement System for the Judiciary of the Commonwealth of Puerto Ricc	2,174	—	2,174
Investments sold	729	—	729
Accrued investment income	11,494	—	11,494
Other	13,185	—	13,185
Total accounts receivable	161,555	—	161,555
Capital assets – net	8,594	—	8,594
Bond issue costs – net	29,981	—	29,981
Other assets	5,261	—	5,261
Total assets	$ 3,995,903	—	3,995,903

(Continued)

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Plan Net Position

June 30, 2013

(In thousands)

	Pension	Post employment healthcare benefits	Total
Liabilities:			
Accounts payable and accrued liabilities	$ 13,905	—	13,905
Securities lending obligations	124,411	—	124,411
Bond interest payable	13,876	—	13,876
Escrow funds of mortgage loans and guarantee insurance reserve for loans to plan members	7,483	—	7,483
Bonds payable	3,051,189	—	3,051,189
Other liabilities	53,697	—	53,697
Total liabilities	3,264,561	—	3,264,561
Contingencies (note 13)			
Net position held in trust for pension benefits	$ 731,342	—	731,342

See accompanying notes to basic financial statements.

**EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT
OF THE COMMONWEALTH OF PUERTO RICO**
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Changes in Plan Net Position

Year ended June 30, 2013

(In thousands)

	Pension	Post employment healthcare benefits	Total
Additions:			
Contributions:			
Employers:			
Basic benefits	$ 424,704	—	424,704
Special benefits	203,943	91,823	295,766
Participating employees	322,528	—	322,528
Total contributions	951,175	91,823	1,042,998
Investment income:			
Interest income	127,377	—	127,377
Dividend income	242	—	242
Net appreciation of investments	120,956	—	120,956
Total investment income	248,575	—	248,575
Less investment expense	3,553	—	3,553
Net investment income	245,022	—	245,022
Other income	22,035	—	22,035
Total additions	1,218,232	91,823	1,310,055
Deductions:			
Benefits paid to participants:			
Annuities	1,218,958	—	1,218,958
Special benefits	201,742	91,823	293,565
Death benefits	10,012	—	10,012
Refunds of contributions:			
Employers	971	—	971
Participating employees	51,336	—	51,336
Interest on bonds payable	192,230	—	192,230
General and administrative	33,078	—	33,078
Other expenses	16,095	—	16,095
Total deductions	1,724,422	91,823	1,816,245
Net decrease in net position held in trust f	(506,190)	—	(506,190)
Net position held in trust for pension benefits:			
Beginning of year	1,237,532	—	1,237,532
End of year	$ 731,342	—	731,342

See accompanying notes to basic financial statements.

(1) Organization and Summary of Significant Accounting Policies

The Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the System) was created by Act No. 447 on May 15, 1951 (Act No. 447). The System administers a cost-sharing, multi-employer, defined benefit pension plan (the pension plan). The System also administers post employment healthcare benefits provided by the Commonwealth of Puerto Rico (the Commonwealth) to retired plan members (the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities Medical Insurance Plan Contribution – ERS MIPC), an unfunded, cost-sharing, multi-employer defined benefit other postemployment benefit. The System is considered an integral part of the financial reporting and is included in the Commonwealth's basic financial statements. The System, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

The System's governance is vested in a Board of Trustees (the Board), which sets policy and oversees the operations consistent with applicable laws. There are eleven members of the Board, as follows: the Puerto Rico Secretary of the Treasury (or her appointee), the President of the Government Development Bank for Puerto Rico (or his appointee), the Commissioner of Municipal Affairs (or his appointee) and the Director of the Office of Human Resources of the Commonwealth (or his appointee), as ex officio members; three members appointed to three-year terms by the Governor of the Commonwealth (the Governor), two of whom must be members of the System and one member of the Retirement System for the Judiciary of the Commonwealth of Puerto Rico, with at least ten years of credited service; and two members who are a pensioners of each system. The other two members are the President of the Federation of Mayors and the President of the Association of Mayors. The Board is also responsible for appointing the Administrator of the System.

As of June 30, 2013, the pension plan has an unfunded actuarial accrued liability (UAAL) of approximately $22,981 million, representing a 3.1% funding ratio. In the opinion of management and based on information prepared by consulting actuaries, it is estimated that starting in fiscal year 2015, the System's assets will be less than its obligations (including bonds payable but excluding its UAAL) resulting in a deficit net position. In addition, annual cash flow estimates for the foreseeable future are presently estimated to continue to reduce the net position unless other measures are taken. As described in note 10, future employers' contributions have been pledged for the payment of debt service, consequently further depletion of the System's assets could result in the inability to pay benefits and bonds.

The estimate of when the System's net position will become a deficit and when its assets would be exhausted is based on significant assumptions, including the rate of return on investments, the amount and timing of collections from the Commonwealth for the member, employer contributions and the employers' additional contribution (Act No. 32), which as discussed below, was estimated in $120 million annually, as well as the estimated participant benefits and the System's administrative expenses to be paid each year.

To improve the liquidity and solvency of the System, the Commonwealth enacted Act No. 32 of June 25, 2013, which provides for incremental annual contributions from the Commonwealth General Fund beginning in fiscal year 2014 and up to the fiscal year 2033. This additional contribution will be determined annually based on actuarial studies to be performed by the System's actuaries. An

appropriation for such additional contribution of approximately $120 million was included in the Commonwealth's budget for the fiscal year 2014. However, as a result of budgetary constraints at the present time management believes that approximately $90 million of this amount will not be collected as expected during fiscal year 2014. Further, this additional contribution was reduced to $28.2 million for the Commonwealth's proposed budget for the fiscal year 2015.

The Commonwealth has been facing a number of fiscal and economic challenges in recent years due, among other factors, to continued budget deficits, a prolonged economic recession, high unemployment, population decline, and high levels of debt and pension obligations. In recent months, the widening of credit spreads for the Commonwealth's public sector debt and the recent downgrading of the Commonwealth's credit ratings and those of many of its instrumentalities to noninvestment grade have put further strain on the Commonwealth's liquidity and may affect its access to both the capital markets and private sources of financing, as well as the borrowing cost of any such funding. The System's funding requirements, together with the funding requirements of the Retirement System for the Judiciary of the Commonwealth of Puerto Rico and the Puerto Rico System of Annuities and Pensions for Teachers, could have a direct negative effect on the Commonwealth's General Fund, since the Commonwealth is the plan sponsor and is obligated to make contributions to fund each of the systems.

If the Commonwealth's financial condition does not improve as a result of fiscal and budgetary measures it is taking, its ability to repay its obligations, including its regular employer contributions to the System and its additional contribution as provided by Act No. 32, for the upcoming years, may continue to be adversely affected, and could also affect the payment of benefits and the repayment of the System's bond payable.

On July 2, 2010, the Commonwealth enacted Act No. 70 establishing a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined. Act No. 70 also established that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of creditable services and will consist of monthly benefits ranging from 37.5% to 50% of each employees' monthly salary. Benefits under this program will be paid by the General Fund of the Commonwealth (the General Fund) and by the public corporations, covering their respective employees until the plan member reaches the later of age 55 for members under Act No. 447 or age 65 for members under Act No. 1, or the date the plan member would have completed 30 years of service had the member continued employment. In addition, the public corporations will also be required to continue making the required employee and employer contributions to the System. The General Fund will be required to continue making its required employer contributions. The System will be responsible for benefit payments afterwards. As of June 30, 2013 the System has recorded a liability of approximately $16 million for its responsibility as an employer under Act No. 70.

On July 6, 2011, the Commonwealth enacted Act No. 116 increasing the employers' contribution rate from 9.275% to 10.275% of employee compensation for the 2011-2012 fiscal year, an additional 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020.

Other measures taken to improve the liquidity of the pension plan include, among others, 1) Act. No. 32 enacted on June 25, 2013 (Act. No. 32) in an attempt to provide additional measures to improve the collections of late contributions from employers; 2) revision of the Personal Loan Policy by limiting personal and cultural loan amounts to $5,000 each, from $15,000 and $10,000, respectively; and 3) the receipt of a special contribution from the Commonwealth that was invested in junior subordinated capital appreciation bonds issued by the Puerto Rico Sales Tax Financing Corporation (the COFINA Bonds) amounting to $162.5 million (see note 11).

On April 4, 2013, the Governor signed into law Act No. 3 of 2013 (Act No. 3), in order to implement a comprehensive reform plan to address the System's unfunded actuarial accrued liability. Act No. 3 became effective on July 1, 2013 and amended the provisions of the different benefits structures under the System through several measures that include, among others:

1. For active participants of the contributory defined benefit programs under Act No. 447 and Act No. 1, all retirement benefits accrued through June 30, 2013 were frozen, and thereafter, all future benefits will accrue under the defined contribution formula used for System 2000 participants, and will be paid at retirement through a lifetime annuity.

2. Increased the minimum pension for current retirees from $400 to $500 per month.

3. Retirement age for Act No. 447 participants will be gradually increased from age 58 to age 61.

4. Retirement age for active System 2000 participants will be gradually increased from age 60 to age 65.

5. Transitioning active participants under Act No. 1 and Act No. 447 to a defined contribution plan similar to System 2000.

6. Eliminated the "merit annuity" available to participants who joined the System prior to April 1, 1990 (see note 2).

7. The retirement age for new employees is increased to age 67, except for new state and municipal police officers, firefighters, and custody officers, which will be age 58.

8. The employee contribution rate was increased from 8.275% to 10%.

9. For System 2000 participants, the retirement benefits will no longer be paid as a lump sum distribution, instead, they will be paid through a lifetime annuity.

10. Eliminated or reduced various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus was reduced from $600 to $200 and was eliminated for future retirees. The summer bonus was eliminated. Resulting employer contributions savings will be contributed to the System.

11. Disability benefits were eliminated and substituted for a mandatory disability insurance policy.

12. Survivor benefits were modified.

The successful implementation of these measures cannot be assured, as it is dependent upon future events and circumstances whose outcome cannot be anticipated.

The System and the Retirement System for the Judiciary of the Commonwealth of Puerto Rico (JRS), also a component unit of the Commonwealth, are both administered by Puerto Rico Government Employees and Judiciary Retirement Systems Administration (the Administration). The Administration allocated 1.73% of its general and administrative expenses to JRS during the year ended June 30, 2013. The methodology used to determine the allocation of the Administration's expenses is based on total employer and participating employees' contributions to JRS, divided by the aggregate total of employers' and participants' contributions to the System and JRS, combined.

The following are the significant accounting policies followed by the System in the preparation of its financial statements:

(a) Basis of Presentation

The accompanying basic financial statements have been prepared on the accrual basis of accounting in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and note Disclosures for Defined Contribution Plans*, as amended by GASB Statement No. 50, *Pension Disclosure – an amendment of GASB Statements No. 25 and No. 27*. Participating employees and employers' contributions are recognized as additions in the period in which the employee services are rendered. Annuities, benefits, and refunds are recognized as deductions when due and payable in accordance with the terms of the plan.

Healthcare benefits are reported in accordance with GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* GASB 43 establishes uniform financial reporting standards for Other Postemployment Benefit Plans (OPEB) and supersedes the interim guidance included in GASB Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans.* The approach followed by GASB 43 is generally consistent with the approach adopted in GASB 25, with modifications to reflect differences between pension and OPEB plans.

(b) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of net position held in trust for pension benefits and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of additions and deductions to net position held in trust for pension benefits during the reporting period. Actual results could differ from those estimates.

(c) Cash and Short-Term Investments

Cash and short-term investments consist of overnight deposits with the custodian bank, securities lending collateral, money market funds, and certificates of deposits in Government Development Bank for Puerto Rico (GDB) (a component unit of the Commonwealth) and commercial banks. Restricted cash deposited with GDB consists of payments received from mortgage loan holders in the servicing of loans (escrow accounts) and expired checks not claimed by the plan members, restricted for repayments. Restricted cash in Bank of New York Mellon consists of cash deposited with trustee to maintain the debt service funds and the sinking funds for the retirement of the System's bonds payable.

(d) Investments

Investments are recorded at fair value. The fair value of investments is based on quoted prices, if available. The System has investments in limited partnerships and nonexchange commingled trust funds valued at approximately $55 million and $1,054 million, respectively, as of June 30, 2013. Fair values of investments in limited partnerships have been estimated in the absence of readily determinable fair values, based on information provided by the underlying fund managers. Nonexchange commingled trust funds are reported at their net asset value (NAV).

Securities transactions are accounted for on the trade date. Realized gains and losses on securities are determined by the average cost method and are included in the statement of changes in plan net position.

(e) Loans to Plan Members

Mortgage, personal, and cultural trip loans to plan members are stated at their outstanding principal balance less an allowance for uncollectible amounts. The maximum amount that may be loaned to plan members for mortgage loans is $100,000, and $5,000 for personal, and cultural trip loans.

The System services mortgage loans with aggregate principal balances of approximately $4 million at June 30, 2013, related to certain mortgage loans sold to the Federal National Mortgage Association for a fee of 0.25%. The sale contract stipulates that the System must repurchase any loans with payments in arrears over 90 days.

(f) Insurance Premiums, Claims, and Reserve for Life Insurance on Loans to Plan Members

Premiums collected and benefits claimed are recorded as additions and deductions, respectively. The guarantee insurance reserve for life insurance on loans to plan members is revised each year and adjusted accordingly based on the annual higher claim amount of a five-year period increased by a management determined percentage.

(g) Capital Assets

Capital assets include building, building improvements, and furniture and equipment. The System defines capital assets as assets, which have an initial individual cost of $500 or more at the date of acquisition and have a useful life equal to or in excess of four years. Capital assets are recorded at

(Continued)

historical cost or their estimated historical cost if actual historical costs are not available. Donated capital assets are recorded at their estimated fair value at time of donation.

Capital assets are depreciated on the straight-line method over the assets estimated useful life. There is no depreciation recorded for construction in progress. The estimated useful lives of capital assets are as follows:

	Years
Building	50
Buildings improvements	10
Equipment, furniture, fixtures, and vehicles	5–10

(h) Recently Issued Accounting Pronouncements

The GASB has issued the following accounting pronouncements that have effective dates after June 30, 2013:

a. GASB Statement No. 67, *Financial Reporting for Pension Plan*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures,* as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. This Statement is effective for financial statements for fiscal years beginning after June 15, 2013.

b. GASB Statement No. 68, *Accounting and Financial Reporting for Pension – an amendment of GASB 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50

remain applicable for pensions that are not covered by the scope of this Statement. This Statement is effective for fiscal years beginning after June 15, 2014.

The impact that these Statements will have on the System's financial statements has not yet been determined.

(2) Plan Description

Pension Benefits

The pension plan consists of different benefit structures pursuant to Act No. 447, as amended, including a cost-sharing, multi-employer, defined benefit program and a cash balance program, similar to a cash balance plan. The pension plan is sponsored by the Commonwealth, public corporations, and municipalities of Puerto Rico. Substantially all full-time employees of the Commonwealth and its instrumentalities (73 Commonwealth agencies, 78 municipalities, and 64 public corporations, including the System) are covered by the System. All regular, appointed, and temporary employees of the Commonwealth become plan members at the date of employment. Participation is optional for Commonwealth officers appointed by the Governor and Head of agencies.

At June 30, 2013, membership of the System consists of the following:

Retired and beneficiaries currently receiving benefits	107,848
Current participating employees – defined benefit	62,163
Cash balance system 2000 participating employees	63,508
Disabled members, not receiving benefits	16,649
Total membership	250,168

There were no terminated members entitled to but not yet receiving benefits.

Plan members, other than those joining the System after March 31, 1990, are eligible for the benefits described below:

(a) Retirement Annuity

Plan members are eligible for a retirement annuity upon reaching the following age:

Policemen and firefighters	Other employees
50 with 25 years of credited service	55 with 25 years of credited service
58 with 10 years of credited service	58 with 10 years of credited service

Plan members are eligible for monthly benefit payments determined by the application of stipulated benefit ratios to the plan member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by the System. The annuity, for which a plan

member is eligible, is limited to a minimum of $400 per month and a maximum of 75% of the average compensation.

(b) Merit Annuity

Plan members are eligible for merit annuity with a minimum of 30 years or more of credited service. The annuity for which the plan member is eligible is limited to a minimum of 65% and a maximum of 75% of the average compensation.

(c) Deferred Retirement Annuity

A participating employee who ceases to be an employee of the Commonwealth after having accumulated a minimum of 10 years of credited service qualifies for retirement benefits provided his/her contributions to the System are not withdrawn until attainment of 58 years of age.

(d) Coordinated Plan

On the coordinated plan, the participating employee contributes a 5.775% of the monthly salary for the first $550 and 8.275% for the excess over $550. By the time the employee reaches 65 years old and begins to receive social security benefits, the pension benefits are reduced by the following:

- $165 per month if retired with 55 years of age and 30 years of credited service
- $110 per month if retired with less than 55 years of age and 30 years of credited service
- All other between $82 and $100 per month
- Disability annuities under the coordinated plan are also adjusted at age 65 and in some cases can be reduced over $165 per month

(e) Noncoordinated Plan

On the noncoordinated plan, the participating employee contributes an 8.275% of the monthly salary and does not have any change on the pension benefits upon receiving social security benefits.

(f) Reversionary Annuity

A plan member, upon retirement, could elect to receive a reduced retirement annuity giving one or more benefit payments to his/her dependents. The life annuity payments would start after the death of the retiree for an amount not less than $240 yearly or greater than the annuity payments being received by the retiree.

(g) Occupational Disability Annuity

A participating employee, who as a direct result of the performance of his/her occupation is totally and permanently disabled, is eligible for a disability annuity of 50% of the compensation received at the time of the disability.

(h) Nonoccupational Disability Annuity

A participating employee totally and permanently disabled for causes not related to his/her occupation, and with no less than 10 years of credited service, is eligible for an annuity of 1.5% of the average compensation of the first 20 years of credited services increased by 2% for every additional year of credited service in excess of 20 years.

(i) Death Benefits

Occupational

Surviving Spouse – annuity equal to 50% of the participating employee's salary at the date of the death.

Children – $10 per month for each child, minor or student, up to a maximum benefit per family of 100% of the participating employee's salary at the date of the death. If no spouse survives, or dies while receiving the annuity payments, each child, age 18 or under, is eligible to receive an annuity of $20 per month up to the attainment of 18 years of age or the completion of his/her studies.

Nonoccupational

Beneficiary – the contributions and interest accumulated as of the date of the death plus an amount equal to the annual compensation at the time of the death.

Postretirement – Beneficiary with surviving spouse age 60 or over and child, age 18 or under, up to 50% (60%, if not covered under Title II of the Social Security Act) of retiree's pension or otherwise the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death, limited to a minimum of $1,000.

Refunds – A participating employee who ceases his/her employment with the Commonwealth without right to a retirement annuity has the right to a refund of the contributions to the System, plus any interest earned thereon.

(j) Amendments to Benefits Structure for Plan Members who Joined the System on or After April 1, 1990

Act No. 1 of February 16, 1990, made certain amendments applicable to new participating employees joining the System effective April 1, 1990. These changes consist principally of an increase in the retirement age from 55 to 65, a decrease in the benefit percentage of the average compensation in the occupational disability and occupational death benefits annuities from 50% to 40%, and the elimination of the merit annuity for participating employees (except policemen and firemen) who have completed 30 years of creditable service.

(k) Special Benefits

During fiscal years 2003 to 2007, the Commonwealth granted additional benefits to the System's retirees. As of June 30, 2013, these benefits are being funded through special appropriations from the

Commonwealth for the amount corresponding to the Commonwealth agencies and from the public corporations and municipalities. Special benefits include the following:

- Christmas bonus – An annual bonus of $600 for each retiree and disabled member paid each December. The System pays $150 per retiree and disabled member and the remaining bonus is paid by the respective employer.

- Summer bonus – An annual bonus of $100 for each retiree, beneficiary, and disabled member paid each July. This benefit is prorated if there are multiple beneficiaries and is funded by the Commonwealth.

- Medication bonus – An annual bonus of $100 for each retiree, beneficiary, and disabled member paid each July to cover health costs. Evidence of coverage is not required.

- Cost of living adjustment for pension benefits (COLA) – Act No. 10 of May 21, 1992, provided for increases of 3% every three years, of the pensions paid by the System to those plan members with three or more years of retirement. The Act requires further legislation to grant this increase every three years, subject to the presentation of actuarial studies regarding its costs and the source of financing. Since fiscal year 1992 to 2007 there have been other acts addressing the COLA, such as Act No. 207 of August 13, 1995; Act No. 221 of August 9, 1998; Act No. 40 of June 13, 2001; Act No. 157 of June 27, 2003; and Act No. 35 of April 24, 2007.

  On April 24, 2007, the Governor signed into law Act No. 35 to provide for an increase of 3% of the pension paid by the System to those plan members whose monthly pension was less than $1,250, effective on July 1, 2008.

To protect the financial health of the System, the increases granted pursuant to the above laws are being financed through annual appropriations from the Commonwealth and contributions from municipalities and public corporations.

(l) Early Retirement Programs

The Municipality of San Juan issued the Resolution No. 41, dated May 5, 2008, which provided an early retirement program for the municipality's employees. The Municipality of San Juan will reimburse the annuities and other benefits paid by the System during a five-year period, plus the employer and employee contributions with respect to the plan members covered until they reach the normal retirement age.

The Puerto Rico Environmental Quality Board (EQB) implemented an early retirement program for its employees under the Law 224 Act No. 7 dated August 9, 2008. EQB has already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the System in four installments on each July 31 starting in 2009 through 2012. The EQB was at default on the retirement plan payment, so they requested a new payment plan. The ERS Board of Trustees approved a Payment Plan for the debt balance due of the Retirement program for 24 months starting in March 2014.

(m) Amendment to Act No. 447 Effective January 1, 2000, to Create System 2000

On September 24, 1999, Law 305, an amendment to Act No. 447 of May 15, 1951, which created the System, was enacted to provide for a new benefit structure, similar to a cash balance plan, known as System 2000, to cover employees joining the System on or after January 1, 2000.

Employees participating in the System as of December 31, 1999, were allowed to elect either to stay in the defined benefit structure or transfer to System 2000. People joining the public sector on or after January 1, 2000, are only allowed to become members of System 2000. Under System 2000, contributions received from participants are pooled and invested by the System, together with the assets corresponding to the defined benefit structure. Future benefit payments under the original defined benefit structure and System 2000 will be paid from the same pool of assets. As a different benefit structure, System 2000 is not a separate plan, and as such, is not presented separately from the original defined benefit structure, pursuant to the provisions of GASB Statement No. 25. The Commonwealth does not guarantee benefits at retirement age.

The annuity benefits to participants is based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested as instructed by the employee in an account which either: (1) earns a fixed rate based on the two-year Constant Maturity Treasury Notes or, (2) earns a rate equal to 90% of the return of the System's investment portfolio (net of management fees), or (3) earns a combination of both alternatives. Plan members receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability benefits are not granted under System 2000 rather should be provided to those plan members that voluntarily elect to participate in a private insurance long-term disability program. The employers' contributions (11.275% of the employee's salary for 2013) with respect to employees under System 2000 will continue but will be used to fund the defined benefit plan. System 2000 reduced the retirement age from 65 years to 60 for those employees who joined the current plan on or after January 1, 2000.

Other Postemployment Benefits (OPEB) - Healthcare Benefits

ERS MIPC is a cost-sharing, multi-employer defined benefit other postemployment benefit plan sponsored by the Commonwealth. Its benefit consists of a maximum of $100 per month per retiree. Substantially all fulltime employees of: (1) the Commonwealth's primary government and (2) certain municipalities of Puerto Rico and certain component units of the Commonwealth not having their own postemployment benefit plan are covered by the OPEB.

Commonwealth employees become plan members upon their date of employment. Plan members are eligible for benefits upon reaching the following age:

Police and Firemen:
- 50 with 25 years of credited service
- 58 with 10 years of credited service

Other Employees:
- 55 with 25 years of credited service
- 58 with 10 years of credited service

At June 30, 2013, the membership consists of the following:

Membership	
Active	125,671
Retirees	94,395
Disabled	16,649
Total membership	236,715

(3) Funding Policy

Pension Benefits

The contribution requirement to the System is established by law and is not actuarially determined. Required employers' contributions through June 30, 2013, consisted of 11.275% of applicable payroll in the cases of municipalities, central government, and public corporations. Required employee contribution consists of 5.775% of the first $550 of the monthly salary with the excess at 8.275% for the coordinated benefit structure and 8.275% of the total monthly salary for participating employee's contributions for the non-coordinated benefit structure. If necessary, additional non payroll related contributions from the Commonwealth should ultimately cover any deficiency between the participating employers' and employee's contributions and the System's pension benefit obligations and general and administrative deductions.

The special benefits contributions of approximately $204 million in 2013 mainly represent contributions from the General Fund of the Commonwealth for the special benefits granted by special laws, as detailed in note 2. The funding of the special benefits is provided to the System through legislative appropriations each July 1. The legislative appropriations are considered estimates of the payments to be made by the System for the special benefits. Deficiencies in legislative appropriations are covered by the System's own funds until recovered through future legislative appropriations. Any surplus of legislative appropriations collected over special benefits paid is combined with the assets held in trust for the payment of other pension benefits.

The June 30, 2013, actuarial valuation reflects an increase in the assumed rate of return from 6.0% to 6.4%, which resulted in a decrease of approximately $1,290 million in the actuarial accrued liability. The significant assumptions underlying the actuarial computations are presented in note 4.

OPEB

The contribution requirement of ERS MIPC is established by Act No. 95 approved on June 29, 1963. This OPEB plan is financed by the Commonwealth on a pay-as-you-go basis. There is no contribution requirement from the plan member during active employment. Retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution. As a result, these OPEB are 100% unfunded. During the year ended June 30, 2013, OPEB contributions amounted to $91.8 million.

The funding of the healthcare benefits is provided to the System through legislative appropriations each July 1. The legislative appropriations are considered estimates of the payments to be made by the System for the healthcare benefits throughout the year.

(4) Funded Status and Funding Progress

The System's funded status as of June 30, 2013, the most recent actuarial valuation date, is as follows (dollars in thousands):

	Actuarial value of plan assets	AAL	UAAL	Funded ratio	Annual covered payroll	UAAL as a percentage of annual covered payroll
Pension	$ 731,342	$ 23,712,081	$ 22,980,739	3.1%	$ 3,489,096	658.6%
OPEB	$ —	$ 1,482,879	$ 1,482,879	-%	$ 3,489,096	42.5%

The schedules of funding progress, presented as required supplementary information following the notes to the basic financial statements, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

Additional information as of the June 30, 2013 valuation is as follows:

Pension Benefits

Valuation date	June 30, 2013
Actuarial cost method	Projected unit credit cost method
Amortization method	30 years closed, level dollar
Remaining amortization period	24 years
Asset valuation method	Market Value of Assets
Actuarial assumptions:	
Investment rate of return	6.4%
Projected salary increases	3%
Projected payroll growth	2.5%
Inflation	2.5%
Cost of living adjustment	3% triennial increases. (statutory COLA rate) for members under Act 127 who become disabled or die in the line of duty.

The projections of pension benefits for financial reporting purposes do not explicitly incorporate the potential effects of legal or contractual funding limitations.

OPEB

Valuation date	June 30, 2013
Actuarial cost method	Projected unit credit cost method
Amortization method	30 years closed, level dollar
Remaining amortization period	24 years
Asset valuation method	Market Value of Assets
Actuarial assumptions:	
Investment rate of return	3.25%
Projected salary increases	Not applicable
Projected payroll growth	Not applicable
Inflation	Not applicable
Cost of living adjustment	Not applicable

Actuarial valuations of an ongoing plan involve estimates of the net value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and mortality. Amounts determined are subject to continuous revision as actual results are compared with past expectations and new estimates are made about the future.

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projections of OPEB for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

The actuarial calculations reflect a long–term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short–term volatility in actuarial accrued liabilities and actuarial value of assets.

Mortality rate assumptions for both pension benefits and OPEB are:

- Pre-retirement Mortality **—** For general employees not covered under Act 127, RP-2000 Employee Mortality Rates for males and females projected on a generational basis using Scale AA. For members covered under Act 127, RP-2000 Employee Mortality Rates with blue collar adjustments for males and females, projected on a generational basis using Scale AA. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service are assumed to be occupational for members covered under Act 127.

- Postretirement Healthy Mortality — Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% from the UP-1994 Mortality Table for Females. The rates are projected on a generational basis starting in 1994 using Scale AA. As a generational table, it reflects mortality improvements both before and after measurement date.

- Postretirement Disabled Mortality — Rates which vary by gender are assumed based on a study of plan's experience from 2007 to 2012 equal to 105% of the rates from the UP-1994 Mortality Table for males and 115% of the rates for females. No provision was made for future mortality improvement.

(5) Deposits and Investments

Deposits

Custodial credit risk for deposits is the risk that, in an event of the failure of a depository financial institution, the System may not be able to recover deposits or collateral securities that are in the possession of an outside party. The Commonwealth requires that public funds deposited in Puerto Rico commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth. Deposits with GDB, Bank of New York Mellon, and with other non Puerto Rico commercial banks are uninsured and uncollateralized, as these entities are exempt from compliance with the collateralization requirement.

As of June 30, 2013, depository bank balances of approximately $397.7 million were uninsured and uncollateralized as follows (in thousands):

		Carrying amount	Depository bank balance	Amount uninsured and uncollateralized
Cash equivalents	$	80,683	80,683	80,683
Deposits with Puerto Rico Department of Treasury		80,433	43,830	43,830
Deposits with GDB		85,905	105,101	105,101
Deposits with Bank of New York Mellon		168,045	168,045	168,045
Total	$	415,066	397,659	397,659

Investments

The System's investments are exposed to custodial credit risk, credit risk, concentration of credit risk, foreign currency risk, and interest rate risk. Following is a description of these risks as of June 30, 2013:

(a) Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the System may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. At June 30, 2013, securities investments were registered in the name of the System and were held in the possession of the System's custodian banks, State Street Bank and Trust and Bank of New York Mellon, except for securities lent.

(b) Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. All fixed-income securities at the time of purchase must be of investment grade quality. All issuances shall be rated investment grade by at least two of the nationally recognized rating agencies. The portfolio is expected to maintain a minimum weighted average credit quality of either "A–" or better.

The credit quality ratings of bonds and notes and fixed income funds as of June 30, 2013, are as follows (in thousands):

Investment type	RATING (1) AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	CCC	Not rated	Total
Bonds and notes:								
U.S. government agencies obligations:								
Federal Home Loan Bank (FHLB)	$ —	19,989	—	—	—	—	—	19,989
Federal National Mortgage Association (FNMA)	—	5,139	—	—	—	—	—	5,139
Federal Home Loan Mortgage Corporation (FHLMC)	—	16,356	—	—	—	—	—	16,356
Federal Farm Credit Banks (FFCB)	—	5,723	—	—	—	—	—	5,723
Mortgage and asset-backed securities:								
FNMA	—	17,645	—	—	—	—	—	17,645
FHLMC	—	7,901	—	—	—	—	—	7,901
Collateralized mortgage obligations (CMO) – Others	8	387	—	—	99	401	—	895
Commercial mortgages	16,578	—	—	—	—	—	—	16,578
Asset-backed securities	779	—	—	—	—	—	—	779
U.S. corporate bonds and notes	8,417	92,554	356,767	247,005	31,630	—	5,273	741,646
Non U.S. corporate bonds	—	26,599	72,311	41,121	7,159	—	12,075	159,265
Foreign government bonds and notes	—	5,537	1,075	—	918	—	—	7,530
U.S. municipal bonds	2,106	3,262	3,344	—	—	—	—	8,712
Commonwealth bonds	—	—	—	985	—	—	—	985
GDB bonds	—	—	—	4,587	—	—	—	4,587
COFINA bonds	—	—	229,819	—	—	—	—	229,819
Total bonds and notes	27,888	201,092	663,316	293,698	39,806	401	17,348	1,243,549
Nonexchange commingled fixed income trust fund – SSgA Intermediate fund	23,397	23,050	75,558	71,041	—	—	—	193,046
Total	$ 51,285	224,142	738,874	364,739	39,806	401	17,348	1,436,595

(1) Rating obtained from Standard & Poor's or equivalent rating by Moody's Investor Service or Fitch Ratings.

Approximately $108 million of the total System investments consist of U.S. government and Government National Mortgage Association (GNMA) mortgage-backed securities, which carry no risk, therefore, not included within the above table.

The System invests in a U.S. fixed income fund which consists of shares of the State Street Global Advisor (SSgA) Intermediate U.S. Credit Index Non-Lending Fund (the SSgA Intermediate Fund). The investment objective of the SSgA Intermediate Fund is to replicate the Barclays U.S. Intermediate Credit Bond Index by investing exclusively in fixed income securities. Shares of the SSgA Intermediate Fund can be redeemed on a daily basis at NAV and have no redemption restrictions.

(c) Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the System's investment in a single issuer. As of June 30, 2013, there are no investments in any issuer that represent 5% or

more of the System's net position, except for its investment in COFINA Bonds further described in note 11.

As of June 30, 2013, the System owned shares in the SSgA Russell 3000 Index Non-Lending Fund (the SSgA Russell 3000 Fund), the SSgA MSCI ACWI Ex USA Non-Lending Fund (the SSgA MSCI ACWI Ex USA Fund), and the SSgA Intermediate Fund as follows (in thousands):

Fund name	Shares		Value
SSgA MSCI ACWI Ex USA Fund	15,534	$	243,745
SSgA Russell 3000 Fund	38,509		616,764
SSgA Intermediate Fund	7,086		193,046
Total nonexchange commingled trust funds		$	1,053,555

The investment objective of the Russell 3000 Fund is to approximate as closely as practicable, before expenses, the performance of the Russell 3000 Index over the long term. Shares can be redeemed on a daily basis at NAV and have no redemption restrictions.

The investment objective of the SSgA MSCI ACWI Ex USA Fund is to approximate as closely as practicable, before expenses, the performance of the MSCI ACWI ex USA Index over the long term. Shares can be redeemed semi-monthly at NAV and have no redemption restrictions.

As of June 30, 2013, the investments underlying the SSgA Russell 3000 Fund, SSgA MSCI ACWI Ex USA Fund, and the SSgA Intermediate Fund had the following sector allocations:

Sector	SSgA Russell 3000 Fund	SSgA MSCI ACWI Ex USA Fund
Information technology	17%	7%
Healthcare	12	8
Financials	18	26
Energy	10	9
Consumer staples	9	11
Industrials	11	11
Consumer discretionary	13	10
Utilities	3	3
Telecommunication services	3	6
Materials	4	9
	100%	100%

	SSgA Intermediate Fund
Corporate – Industrial	42%
Corporate – Finance	30
Non Corporates	20
Corporate – Utility	6
Cash	2
Total	100%

(d) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the System manages its exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for benefit payments, thereby avoiding the need to sell securities on the open market prior to maturity. Investments in equity securities are not subject to the maximum maturity policy since they do not carry a maturity date. The System is expected to achieve capital preservation and income generation by investing in a diversified portfolio of marketable, investment grade intermediate credit and core fixed-income securities.

The contractual maturity of investments as of June 30, 2013, is summarized as follow (in thousands):

	Maturity (in years)				
Investment type	**Within one year**	**After one to five years**	**After five to ten years**	**After ten years**	**Total**
Bonds and notes:					
U.S. government securities:					
U.S. Treasury notes	$ 29,946	2,064	12,287	—	44,297
U.S. Treasury note strips	—	—	33,282	—	33,282
U.S. Treasury Inflation-Protected Securities (TIPS)	—	3,038	10,640	3,109	16,787
U.S. government sponsored agencies notes:					
FHLB	—	14,092	5,897	—	19,989
FNMA	—	2,783	2,356	—	5,139
FHLMC	606	9,057	6,693	—	16,356
FFCB	—	4,176	1,547	—	5,723
Mortgage and asset-backed securities:					
GNMA	—	—	—	13,262	13,262
FNMA	—	—	690	16,955	17,645
FHLMC	—	—	—	7,901	7,901
Collateralized mortgage obligations (CMO) – others	8	—	—	887	895
Commercial mortgages	—	—	—	16,578	16,578
Asset-backed securities	—	779	—	—	779
U.S. corporate bonds and notes	68,184	348,916	297,941	26,605	741,646
Non U.S. corporate bonds	13,691	77,526	63,782	4,266	159,265
Foreign government bonds and notes	—	2,868	3,744	918	7,530
U.S. municipal bonds	—	589	6,017	2,106	8,712
Commonwealth bonds	—	985	—	—	985
GDB bonds	—	4,587	—	—	4,587
COFINA bonds	—	—	—	229,819	229,819
Total bonds and notes	112,435	471,460	444,876	322,406	1,351,177
Nonexchange commingled fixed income trust fund - SSgA Intermediate Fund (1):					
U.S.	—	129,090	—	—	129,090
Non-U.S.	—	63,956	—	—	63,956
Total bonds and notes and nonexchange commingled fixed income trust fund	$ 112,435	664,506	444,876	322,406	1,544,223
Stocks, nonexchange commingled equity trust funds and investments in limited partnerships:					
Non-U.S. corporate stock					75
Nonexchange commingled equity trust funds:					
U.S.- SSgA Russell 3000 Fund					616,764
Non-U.S. – SSgA MSCI ACWI Ex USA Fund					243,745
Investments in limited partnerships					55,067
Total stocks, nonexchange commingled equity trust funds and investments in limited partnerships					915,651
Total investments					$ 2,459,874

(1) Nonexchange commingled fixed income trust fund was classified based on effective duration.

(e) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. As of June 30, 2013, the SSgA MSCI ACWI Ex USA Fund is subject to foreign currency risk.

As of June 30, 2013, the composition of the underlying investments in the SSgA MSCI ACWI Ex USA Fund by country was as follows:

Country	Currency	SSgA MSCI ACWI EX USA Fund
Japan	Japanese Yen	16 %
United Kingdom	British Sterling Pound	15
Canada	Canada Dollar	7
France	Euro	7
Other	Various	7
Switzerland	Swiss Franc	7
Australia	Australian Dollar	6
Germany	Euro	6
China	Chinese Renminbi	4
Brazil	Brazilian Real	3
Korea	South Korean Won	3
Taiwan	New Taiwan Dollar	3
Hong Kong	Hong Kong Dollar	2
India	Indian Rupee	2
Netherlands	Euro	2
South Africa	South African Rand	2
Spain	Euro	2
Sweden	Swedish Krona	2
Italy	Euro	1
Mexico	Mexican Peso	1
Russia	Russian Ruble	1
Singapore	Singapore Dollar	1
Total		100 %

Investments in Limited Partnerships

The fair value of investments in limited partnerships at June 30, 2013, amounted to approximately $55 million and are presented as private equity investments in the basic Statement of Plan Net Position. The allocations of net gains and losses to limited partners are based on certain percentages, as established in the limited partnership agreements. Investments in limited partnerships are not rated by a nationally recognized statistical rating organization.

In accordance with the partnership agreements, the System's investments can only be redeemed upon distribution from funds managers; usually in the form of a sale of its holdings or dividends distributed. As of June 30, 2013, the System does not intend to sell its investments in limited partnerships for an amount different to that presented in the financial statements.

As of June 30, 2013, the date of commitment, total commitment, 2013 contributions, contributions to date at cost, and estimated fair value of investments in limited partnerships are as follows (in thousands):

	Date of commitment	Total commitment	2013 Contributions	Contributions to date at cost	Estimated fair value
Grupo Guayacán, Inc.:					
Guayacán Fund of Funds, LP	September 1996	$ 25,000	—	23,820	1,250
Guayacán Fund of Funds II, LP	August 1999	25,000	—	23,681	4,529
Advent-Morro Equity Partner, Inc.:					
Guayacán Private Equity Fund, LP	January 1997	5,000	—	4,645	3,414
Guayacán Private Equity Fund II, LP	April 2007	25,000	—	19,030	20,460
Venture Capital Fund, Inc.	November 1995	800	—	800	862
GF Capital Management and Advisors, LLC – GF Capital Private Equity Fund LP	December 2006	25,000	1,324	25,576	20,287
Chase Capital Partners Private: Equity Fund of Funds Corporate Investors II, LTD	July 2000	20,000	—	18,955	4,265
Martineau Bay Resort, s. en c. (s.e.)	July 1998	1,796	—	1,796	—
Total		$ 127,596	1,324	118,303	55,067

Securities Lending Transactions

The System participates in a securities lending program, whereby securities are transferred to an independent broker or dealer in exchange for collateral in the form of cash, government securities, and/or irrevocable bank letters of credit with a simultaneous agreement to return the collateral for the same securities in the future. Collateral is marked to market daily and the agent places a request for additional collateral from brokers, if needed. The custodian bank is the agent for the securities lending program.

At the end of the year, there was no credit risk exposure to borrowers because the amounts the System owes the borrowers (the collateral) exceeded the amounts the borrowers owe the System (the loaned securities). At June 30, 2013, the collateral received represented 102% of the fair value of the total securities lent.

(Continued)

The securities on loan for which collateral was received as of June 30, 2013, consisted of the following (in thousands):

Description		Fair value of underlying securities
U.S. government securities:		
U.S. Treasury bill	$	1,000
U.S. Treasury notes		13,522
U.S. Treasury note strips		33,232
U.S. Treasury Inflation-Protected Securities (TIPS)		6,110
U.S. government sponsored agencies notes:		
FHLB		7,750
FNMA		2,744
FHLMC		7,775
FFCB		1,024
U.S. corporate bonds and notes		45,443
Non U.S. corporate bonds and notes		2,861
Total	$	121,461

The underlying collateral for these securities had a fair value of approximately $124.4 million as of June 30, 2013. The collateral received was invested in a money market fund sponsored by the custodian bank and is included as part of cash and cash equivalents in the accompanying statement of plan net position. As of June 30, 2013, the short-term investment fund consisted of securities purchased under agreements to resell.

Under the terms of the securities lending agreement, the System is fully indemnified against failure of the borrowers to return the loaned securities (to the extent the collateral is inadequate to replace the loaned securities) or failure to pay the System for income distributions by the securities' issuers while the securities are on loan. In addition, the System is indemnified against loss should the lending agent fail to demand adequate and appropriate collateral on a timely basis.

(6) Loans and Interest Receivable from Plan Members

Loans receivable from plan members are guaranteed by the contributions of plan members and by other sources, including mortgage deeds and any unrestricted amount remaining in the escrow funds. In addition, collections on loans receivable are received through payroll withholdings. For the year ended June 30, 2013 the maximum amount of loans to plan members for mortgage loans was $100,000 and $5,000 for personal and cultural trip loans. During the years ended June 30, 2013 and 2012, personal loans with principal balances amounting to approximately $88 and $225 million, respectively, were sold to two

financial institutions. As per servicing agreements, the System is in charge of the servicing, administration and collection of the loans and outstanding principal balances at and after closing date for a servicing fee of 2%.

The allowance for adjustments and losses in realization is considered a general allowance for all categories of loans and interest receivable, except mortgage loans, and also a specific allowance for the special collection project loans balances.

As of June 30, 2013, the composition of loans and interest receivable from plan members is summarized as follows (in thousands):

Loans receivable:		
Personal	$	527,877
Mortgage		160,109
Cultural trips		67,896
Total loans to plan members		755,882
Accrued interest receivable		39,656
Less allowance for adjustments and losses in realization		(4,377)
Total loans and interest receivable from plan members – net	$	791,161

(7) Accounts Receivable from Employers

As of June 30, 2013, accounts receivable from employers consisted of the following (in thousands):

Early retirement programs	$	5,458
Special laws		42,749
Employer and employee contributions		71,383
Interest on late payments		11,443
Total	$	131,033

According to Act No. 447, each employer must pay, on a monthly basis, the amounts corresponding to contributions and loan repayments, on or before the fifteenth day of the following month. After that date, interest is charged as established by the System.

As more fully described in note 1, the Commonwealth and many of its instrumentalities, which are the employers as it relates to the System, have been facing significant fiscal and economic challenges. Further, in recent months, the rating downgrade and widening of credit spreads for the Commonwealth's public sector and public corporations' debt has put further strain on liquidity and sources of funding of the employers. Consequently, most of the receivables from employers are delinquent past established payment dates and/or installment plan due dates. In other instances, amounts past due have continued to be renegotiated to later dates.

Although certain measures have been taken to improve the collection of such receivables, the timing of collections from employers affects the liquidity needs of the System. Management is of the opinion that all amounts from employers are collectible, however this situation could ultimately affect the payment of benefits to members or repayment of the System's bonds payable, should any such amounts become uncollectible in the future.

(8) Capital Assets

Capital assets activity for the year ended June 30, 2013 was as follows (in thousands):

	Beginning balance	Increases	Decreases	Ending balance
Capital assets, not being depreciated:				
Land	$ 969	—	—	969
Construction in progress	472	50	—	522
Total capital assets, not being depreciated	1,441	50	—	1,491
Capital assets, being depreciated:				
Building and improvements	12,747	326	—	13,073
Vehicle	—	79	—	79
Equipment	11,950	879	3,522	9,307
Total capital assets, being depreciated	24,697	1,284	3,522	22,459
Less accumulated depreciation for:				
Building and improvements	4,494	404	—	4,898
Equipment	9,976	482	—	10,458
Total accumulated depreciation	14,470	886	—	15,356
Total capital assets being depreciated – net	10,227	398	3,522	7,103
Total capital assets – net	$ 11,668	448	3,522	8,594

(9) Other Assets

As of June 30, 2013, other assets consist of (in thousands):

Executed land	$	4,699
Repossessed and foreclosed properties		562
Total	$	5,261

Repossessed and foreclosed properties consist mainly of properties acquired through foreclosure proceedings related to delinquent mortgage loans. Foreclosed properties are valued at the outstanding principal balance of the related mortgage loan upon foreclosure. These properties will be sold under a bidding process intended to recover the outstanding principal balance of the related mortgage loan. A gain or loss is recognized at the time of sale.

Differences resulting from the recognition of losses at the point of sale rather than upon foreclosure, as required by GAAP in the United States of America, are not material. Management believes that the carrying value of these properties approximates fair value.

(10) Bonds Payable

Senior Pension Funding Bonds – On February 27, 2007, the System's administration and GDB, acting as the System's fiscal agent (the Fiscal Agent), presented to the Board of Trustees, a financial transaction for the issuance of pension funding bonds in order to reduce the System's unfunded actuarial accrued liability. The Bonds are limited, non-recourse obligations of the System, payable solely from and secured solely by a pledge of employer contributions made after the date of issuance of the first series of Bonds, and from funds held on deposit with the Bank of New York (the Fiscal Agent). The Bonds are not payable from contributions made to the System by participating employees, or from the assets acquired with the proceeds of the Bonds, or from employer contributions released by the Fiscal Agent to the System after funding of required reserves, or from any other assets of the System. The System invested the proceeds of the Bonds and used these investments and the earnings thereon to provide pension benefits to its beneficiaries.

On January 31, 2008, the System issued the first series of Bonds, which consisted of approximately $1,589 million aggregate principal amount of Senior Pension Funding Bonds, Series A (the Series A Bonds). On June 2, 2008, the System issued the second of such series of Bonds, which consisted of approximately $1,059 million aggregate principal amount of Senior Pension Funding Bonds, Series B (the Series B Bonds). Finally, on June 30, 2008, the System issued the third and final of such series of Bonds, which consisted of approximately $300 million aggregate principal amount of Senior Pension Funding Bonds, Series C (the Series C Bonds). The following is a summary of changes in the bonds payable principle balance (in thousands):

	Maturity		Balance at June 30, 2012	Accretion	Balance at June 30, 2013
5.85% to 6.45% Term and Capital Appreciation Bonds Series A	2023-2058	$	1,602,749	3,713	1,606,462
6.25% to 6.55% Term and Capital Appreciation Bonds Series B	2028-2058		1,129,989	20,479	1,150,468
6.15% to 6.50% Term and Capital Appreciation Bonds Series C	2028-2043		300,848	188	301,036
Bond discounts			(6,993)	216	(6,777)
Total		$	3,026,593	24,596	3,051,189

 (Continued)

As of June 30, 2013, the outstanding principal balance of the Bonds is as follows (in thousands):

Description		
Series A Bonds:		
Capital Appreciation Bonds, maturing in 2028, bearing interest at 6.20%	$	62,692
Term Bonds, maturing in 2023, bearing interest at 5.85%		200,000
Term Bonds, maturing from 2031 through 2038, bearing interest at 6.15%		679,000
Term Bonds, maturing from 2039 through 2042, bearing interest at 6.20%		332,770
Term Bonds, maturing from 2055 through 2058, bearing interest at 6.45%		332,000
Total Series A Bonds outstanding		1,606,462
Series B Bonds:		
Capital Appreciation Bonds, maturing from 2028 through 2030, bearing interest at 6.40%		194,401
Capital Appreciation Bonds, maturing from 2031 through 2034, bearing interest at 6.45%		139,967
Term Bonds, maturing in 2031, bearing interest at 6.25%		117,100
Term Bonds, maturing from 2036 through 2039, bearing interest at 6.30%		270,000
Term Bonds, maturing from 2055 through 2058, bearing interest at 6.55%		429,000
Total Series B Bonds outstanding		1,150,468
Series C Bonds:		
Capital Appreciation Bonds, maturing in 2030, bearing interest at 6.50%		3,036
Term Bonds, maturing in 2028, bearing interest at 6.15%		110,000
Term Bonds, maturing in 2038, bearing interest at 6.25%		45,000
Term Bonds, maturing in 2043, bearing interest at 6.30%		143,000
Total Series C Bonds outstanding		301,036
Total bonds outstanding		3,057,966
Less bonds discount		(6,777)
Bonds payable – net	$	3,051,189

Series A Bonds – The aggregate principal amount of the Series A Bonds issued amounted to approximately $1,589 million of which $1,544 million were issued as term bonds (the Series A Term Bonds) and $45 million were issued as capital appreciation bonds (the Series A Capital Appreciation Bonds). Interest in the Series A Term Bonds are payable monthly on the first day of each month. Interest on the Series A Capital Appreciation Bonds are not payable on a current basis, but are added to the principal of the Capital Appreciation Bonds on each January 1 and July 1 (Compounding Dates), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360 day year consisting of twelve 30 day months.

The Series A Bonds are subject to redemption at the option of the System from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series A Capital Appreciation Bonds, the accreted amount) of the Series A Bonds, plus accrued interest to the redemption date, and without premium.

In addition, the following Series A Term Bonds are subject to mandatory redemption in part commencing on July 1, 2021 to the extent of the sinking fund requirement for said bonds set forth below at a redemption price equal to 100% of the principal amount thereof plus accrued interest as follows (in thousands):

Redemption Period	Subject Bonds		Amount
July 1, 2021	Term bonds (final maturity July 1, 2023)	$	50,000
July 1, 2022	Term bonds (final maturity July 1, 2023)		70,000
July 1, 2023	Term bonds (final maturity July 1, 2023)		80,000
	Subtotal		200,000
July 1, 2034	Term bonds (final maturity July 1, 2038)		133,500
July 1, 2035	Term bonds (final maturity July 1, 2038)		133,500
July 1, 2036	Term bonds (final maturity July 1, 2038)		133,500
July 1, 2037	Term bonds (final maturity July 1, 2038)		133,500
July 1, 2038	Term bonds (final maturity July 1, 2038)		133,500
	Subtotal		667,500
Total		$	867,500

The System complied with the sinking fund requirements at June 30, 2013.

Series B Bonds – The aggregate principal amount of the Series B Bonds amounted to approximately $1,059 million of which $816 million were issued as term bonds (the Series B Term Bonds) and $243 million were issued as capital appreciation bonds (the Series B Capital Appreciation Bonds). Interest in the Series B Term Bonds are payable monthly on the first day of each month. Interest on the Series B Capital Appreciation Bonds are not payable on a current basis, but are added to the principal of the Series B Capital Appreciation Bonds on each January 1 and July 1 (Compounding Dates), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360 day year consisting of twelve 30 day months.

The Series B Bonds are subject to redemption at the option of the System from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series B Capital Appreciation Bonds, the accreted amount) of the Series B Bonds, plus accrued interest to the redemption date, and without premium.

Series C Bonds – The aggregate principal amount of the Series C Bonds amounted to approximately $300 million of which $298 million were issued as term bonds (the Series C Term Bonds) and $2 million were issued as capital appreciation bonds (the Series C Capital Appreciation Bonds). Interest in the Series C Term Bonds are payable monthly on the first day of each month. Interest on the Series C Capital Appreciation Bonds are not payable on a current basis, but are added to the principal of the Series C Capital Appreciation Bonds on each January 1 and July 1 (Compounding Dates), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360 day year consisting of twelve 30 day months.

The Series C Bonds are subject to redemption at the option of the System from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series C Capital Appreciation Bonds, the accreted amount) of the Series C Bonds, plus accrued interest to the redemption date, and without premium.

In addition, the following Series C Term Bonds are subject to mandatory redemption in part commencing on July 1, 2024 to the extent of the sinking fund requirement for said bonds set forth below at a redemption price equal to 100% of the principal amount thereof plus accrued interest as follows (in thousands):

Redemption Period	Subject Bonds		Amount
July 1, 2024	Term bonds (final maturity July 1, 2028)	$	18,700
July 1, 2025	Term bonds (final maturity July 1, 2028)		22,000
July 1, 2026	Term bonds (final maturity July 1, 2028)		29,150
July 1, 2027	Term bonds (final maturity July 1, 2028)		36,300
July 1, 2028	Term bonds (final maturity July 1, 2028)		3,850
	Subtotal		110,000
July 1, 2029	Term bonds (final maturity July 1, 2038)		100
July 1, 2030	Term bonds (final maturity July 1, 2038)		540
July 1, 2031	Term bonds (final maturity July 1, 2038)		100
July 1, 2032	Term bonds (final maturity July 1, 2038)		3,420
July 1, 2033	Term bonds (final maturity July 1, 2038)		4,320
July 1, 2034	Term bonds (final maturity July 1, 2038)		100
July 1, 2035	Term bonds (final maturity July 1, 2038)		11,940
July 1, 2036	Term bonds (final maturity July 1, 2038)		2,160
July 1, 2037	Term bonds (final maturity July 1, 2038)		7,920
July 1, 2038	Term bonds (final maturity July 1, 2038)		14,400
	Subtotal		45,000
July 1, 2039	Term bonds (final maturity July 1, 2043)		28,600
July 1, 2040	Term bonds (final maturity July 1, 2043)		28,600
July 1, 2041	Term bonds (final maturity July 1, 2043)		28,600
July 1, 2042	Term bonds (final maturity July 1, 2043)		28,600
July 1, 2043	Term bonds (final maturity July 1, 2043)		28,600
	Subtotal		143,000
Total		$	298,000

The System complied with the sinking fund requirements at June 30, 2013.

Debt service requirements in future years on the System's bonds as of June 30, 2013 are as follows (in thousands):

		Principal	Interest	Total
Year ending June 30:				
2014	$	—	166,519	166,519
2015		—	166,519	166,519
2016		—	166,519	166,519
2017		—	166,519	166,519
2018		—	166,519	166,519
2019–2023		120,000	823,233	943,233
2024–2028		186,150	760,552	946,702
2029–2033		1,054,405	725,324	1,779,729
2034–2038		960,885	603,205	1,564,090
2039–2043		730,070	320,472	1,050,542
2044–2048		28,600	247,718	276,318
2049–2053		—	247,568	247,568
2054–2058		539,900	179,875	719,775
2059		221,100	1,201	222,301
		3,841,110	4,741,743	8,582,853
Less:				
Unaccreted interest		(783,144)		
Unamortized discount		(6,777)		
Total	$	3,051,189		

Pledge of Employer Contributions Pursuant to Security Agreement – The System entered into a Security Agreement with the Fiscal Agent for the benefit of the bondholders, pursuant to which the System pledged to the Fiscal Agent, and granted the Fiscal Agent a security interest in employer contributions made after January 31, 2008, which was the date of issuance of the first series of bonds, and the funds on deposit with the Fiscal Agent under the various accounts established under the Pension Funding Bond Resolution (the Resolution).

The Resolution and the Security Agreement constitute a contract between the System and the Fiscal Agent, on behalf of the owners of the bonds. The pledge, covenants and agreements of the System set forth in the Resolution and the Security Agreement shall be for the equal benefit, protection and security of the owners of the bonds, regardless of time or times of their issuance or maturity, and shall be of equal rank, without preference, priority or distinction of any of the bonds over any other bond, except as expressly provided in or permitted by the Resolution. Annual employer contributions that are made after January 31, 2008, which was the date of issuance of the first series of bonds, in accordance with the Act and amounts on deposit in the different accounts created pursuant to the Resolution for the benefits of the owners of the bonds, are pledged for annual debt service requirements as established. The pledge is irrevocable so long as any bonds are outstanding under the terms of the Resolution.

(11) COFINA Bonds

Pursuant to Act No. 96 of June 16th, 2011, during the fiscal year ended June 30, 2011, the System received a special contribution of approximately $163 million from the Puerto Rico Infrastructure Financing Authority, an instrumentality of the Commonwealth. The contribution was invested in bonds issued by the Puerto Rico Sales Tax Financing Corporation (known as COFINA by its spanish acronym), which provide for a 7% accretion rate and maturity dates between 2043 and 2048. COFINA is a blended component unit of the Commonwealth. As required by Act No. 96 of June 16th, 2011, the System cannot voluntary dispose the COFINA Bonds unless such request has been approved by the GDB. The COFINA Bonds have a fair value of approximately $230 million as of June 30, 2013.

(12) Guarantee Insurance Reserve for Loans to Plan Members

The System provides life insurance that guarantees the payment of the outstanding principal balance of mortgage, personal and cultural trip loans in case of death of a plan member. The plan members who obtained these loans from the System pay the coverage in its entirety. The life insurance rates are actuarially determined and do not vary by age, sex, or health status.

(13) Contingencies

The System is a defendant or co-defendant in various lawsuits resulting from the ordinary conduct of its operations. Based on the advice of legal counsel and considering insurance coverages, management is of the opinion that the ultimate liability, if any, will not have a significant effect on the financial status of the System.

REQUIRED SUPPLEMENTARY INFORMATION

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Employers' Contributions
(Unaudited)
(Dollars in thousands)

Plan	Fiscal year ended		Annual required contributions		Actual employers' contributions	Percentage of contribution
Pension*	June 30, 2013	$	2,192,821	$	628,647	28.7%
	June 30, 2012		2,019,467		589,767	29.2
	June 30, 2011		1,734,979		701,399	40.4
	June 30, 2010		1,459,774		531,136	36.4
	June 30, 2009		1,258,695		595,863	47.3
	June 30, 2008		1,191,275		662,275	55.6
Other Postemployment Healthcare Benefits	June 30, 2013	$	154,999	$	91,823	59.2%
	June 30, 2012		133,654		94,664	70.8
	June 30, 2011		129,395		93,851	72.5
	June 30, 2010		128,294		88,599	69.1
	June 30, 2009		111,683		85,385	76.5
	June 30, 2008		110,650		80,019	72.3

*Liabilities are for basic System benefits and selected System administered benefits.

See accompanying notes to required supplementary information and independent auditors' report.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Funding Progress

(Unaudited)

(Dollars in thousands)

Plan	Actuarial valuation date	Actuarial value of plan assets	AAL	UAAL	Funded ratio	Annual covered payroll	UAAL percentage of annual covered payroll
Pension*	June 30, 2013	$ 731,342	$ 23,712,081	$ 22,980,739	3.1%	$ 3,489,096	658.6%
	June 30, 2012	1,236,873	27,645,786	26,408,913	4.5	3,570,339	739.7
	June 30, 2011	1,723,811	25,457,354	23,733,543	6.8	3,666,402	647.3
	June 30, 2010	1,667,358	21,370,006	19,702,648	7.8	3,818,332	516.0
	June 30, 2009	1,851,223	18,943,586	17,092,363	9.8	4,292,552	398.2
	June 30, 2008	2,607,086	N/D	N/D	N/D	N/D	N/D
Other Postemployment Healthcare Benefits	June 30, 2013	$ —	$ 1,482,879	$ 1,482,879	0%	$ 3,489,096	42.5%
	June 30, 2012	—	2,120,970	2,120,970	—	3,570,339	59.4
	June 30, 2011	—	1,758,389	1,758,389	—	3,666,402	48.0
	June 30, 2010	—	1,699,373	1,699,373	—	3,818,332	44.5
	June 30, 2009	—	1,633,159	1,633,159	—	4,292,552	38.0
	June 30, 2008	—	N/D	N/D	N/D	N/D	N/D

* Liabilities are for basic System benefits and selected System administered benefits.

N/D = Not determined.

See accompanying notes to required supplementary information and independent auditors' report.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Required Supplementary Information

(Unaudited)

June 30, 2013

(1) Schedule Of Employers' Contributions

The schedule of employers' contributions provides information about the annual required contributions (ARC) and the extent to which contributions made cover the ARC. The ARC is the annual required contribution for the year calculated in accordance with certain parameters, which include actuarial methods and assumptions.

The System's schedule of employers' contributions includes both Commonwealth's and participating employees' contributions as the Commonwealth's contributions, ultimately, should cover any deficiency between the participating employees' contributions, pension benefits, and the System's administration costs.

The information was obtained from the last actuarial report as of June 30, 2013.

(2) Schedule of Funding Progress

The schedule of funding progress provides information about the funded status of the System and the progress being made in accumulating sufficient assets to pay benefits when due. The information was obtained from the last actuarial report as of June 30, 2013.

Exhibit 76

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EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements and Required Supplementary Information

June 30, 2014

(With Independent Auditors' Report Thereon)

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT
OF THE COMMONWEALTH OF PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

Table of Contents

KPMG LLP
American International Plaza
Suite 1100
250 Muñoz Rivera Avenue
San Juan, PR 00918-1819

Independent Auditors' Report

The Board of Trustees
Employees' Retirement System of
the Government of the Commonwealth of Puerto Rico:

We have audited the accompanying financial statements of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the System), which comprise the statement of fiduciary net position as of June 30, 2014, the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, which collectively comprise the System's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico as of June 30, 2014, and the changes in its fiduciary net position for the year then ended, in accordance with U.S. generally accepted accounting principles.

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Emphasis of Matters

Adoption of New Accounting Pronouncements

As discussed in note 2(i) to the basic financial statements, the System adopted Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities,* effective for periods beginning after July 1, 2012. The System also adopted GASB Statement No. 67, *Financial Reporting for Pension Plans — an Amendment of GASB Statement No. 25*. Our opinion is not modified with respect to these matters.

Insolvency of the System

As discussed in note 3 to the basic financial statements, the System's fiduciary net position as a percentage of total pension liability was less than one percent as of June 30, 2014. In the opinion of management, based on information prepared by consulting actuaries, if measures are not taken to significantly increase contributions, the System will become insolvent by fiscal year 2018 depending on the timing of receipt of contributions and the System's ability to dispose of illiquid assets. Further, as described in note 10, future employers' contributions have been pledged for debt service, consequently, further depletion of System's assets could result in an inability to pay benefits. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis and the schedules included under the Required Supplementary Information in the accompanying table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

San Juan, Puerto Rico
June 1, 2016

Stamp No. E217470 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

Introduction

The following discussion and analysis of the financial performance of the Retirement System of the Government of the Commonwealth of Puerto Rico (the System) provides an overview of its activities for the fiscal year ended June 30, 2014. Its purpose is to provide explanations and insights into the information presented in the basic financial statements, notes to the basic financial statements, and required supplementary information. This discussion and analysis is intended to be read in conjunction with the System's financial statements.

The System is a trust created by the Legislature of the Commonwealth of Puerto Rico (the Commonwealth) in 1951 pursuant to Act No. 447 of May 15, 1951, as amended, to provide pension and other benefits to retired employees of the Commonwealth, its public corporations and municipalities of Puerto Rico.

The System administers a cost-sharing, multi-employer, pension plan (the pension plan) that consists of three benefit structures: (i) a cost-sharing, multi-employer, defined benefit program, (ii) a defined contribution program (System 2000 program), and (iii) a contributory hybrid program. The System also administers postemployment healthcare benefits provided by the Commonwealth to retired plan members.

The System is considered an integral part of the financial reporting of the Commonwealth and is included in the Commonwealth's basic financial statements.

Overview of the Basic Financial Statements

The following discussion and analysis is intended to serve as an introduction to the System's basic financial statements. The basic financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) pronouncements and include the following:

- The Statement of Fiduciary Net Position – presents the financial position of the System at fiscal year end. It provides information about the nature and amounts of resources with present service capacity that the System presently controls (assets), consumption of net assets by the System that is applicable to a future reporting period (deferred outflow of resources), presents obligations to sacrifice resources that the System has little or no discretion to avoid (liabilities), and acquisition of net assets by the System that is applicable to a future reporting period (deferred inflow of resources) with the difference between assets/deferred outflow of resources and liabilities/deferred inflow of resources being reported as net position. Investments are shown at fair value. All other assets and liabilities are determined on an accrual basis.
- The Statement of Changes in Fiduciary Net Position – presents the results of activities during the fiscal year. All changes affecting the assets/deferred outflow of resources and liabilities/deferred inflow of resources of the System are reflected on an accrual basis of when the activity occurred, regardless of the timing of the related cash flows. Changes in the fair values of investments are included in the year's activity as net appreciation (depreciation) in fair value of investments.
- The Notes to the Basic Financial Statements – provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes present information about the

System's accounting policies, significant account balances and activities, material risks, obligations, contingencies, and subsequent events, if any.

- Required Supplementary Information – as required by GASB is presented after the notes to the basic financial statements. It consists of information pertaining to the System's actuarial methods and assumptions and provides data on changes in the employers' net pension liability and related ratios, the pension benefits employers' contributions, and the pension benefits' investment return as well as data on the System's other postemployment benefits.

In fiscal year 2014, the System adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB Statement No. 65). The Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement No. 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the GASB in authoritative pronouncements that are established after applicable due process. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement No. 4. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources and limiting the use of the term deferred in financial statement presentations. GASB Statement No. 65 requires that debt issuance costs be recognized as deduction in the period incurred in the statement of changes in fiduciary net position. At transition, the impact of GASB Statement No. 65 was to decrease the fiduciary net position as of July 1, 2012 by approximately $31,076,000 reflecting the cumulative retrospective effect of derecognizing the debt issuance costs which had previously been deferred in the statement of fiduciary net position. In addition, the issuance costs amortization of approximately $1,095,000 in fiscal year ended June 30, 2013, included as a deduction of interest on bond payable in the statement of changes in fiduciary net position, was derecognized.

In addition, the System adopted GASB Statement No. 67, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25* (GASB Statement No. 67) in fiscal year 2014. Implementation of GASB Statement No. 67 did not impact the fiduciary net position of the System; however, certain changes to note disclosures and required supplementary information have been incorporated to comply with the new standard.

Subsequent to the issuance of the System's 2013 financial statements, management of the System identified various errors in such previously issued financial statements. The System found unrecorded amounts due from the Retirement System for the Judiciary of the Commonwealth of Puerto Rico (JRS) resulting from net benefits paid by the System to the JRS' retirees and beneficiaries and from unallocated System's general and administrative expenses and other expenses. As a result, the System's net position restricted for pension as of July 1, 2012 was increased by approximately $12,189,000, including an estimate of approximately $4,249,000 for the lost income to be restored to the System. Additionally, the other income, the benefits paid to participants and the other expenses for the year ended June 30, 2013 were increased (decreased) by approximately $959,000; ($699,000); and $151,000, respectively, to correct these immaterial errors.

**EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT
OF THE COMMONWEALTH OF PUERTO RICO**
(A Component Unit of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis

June 30, 2014

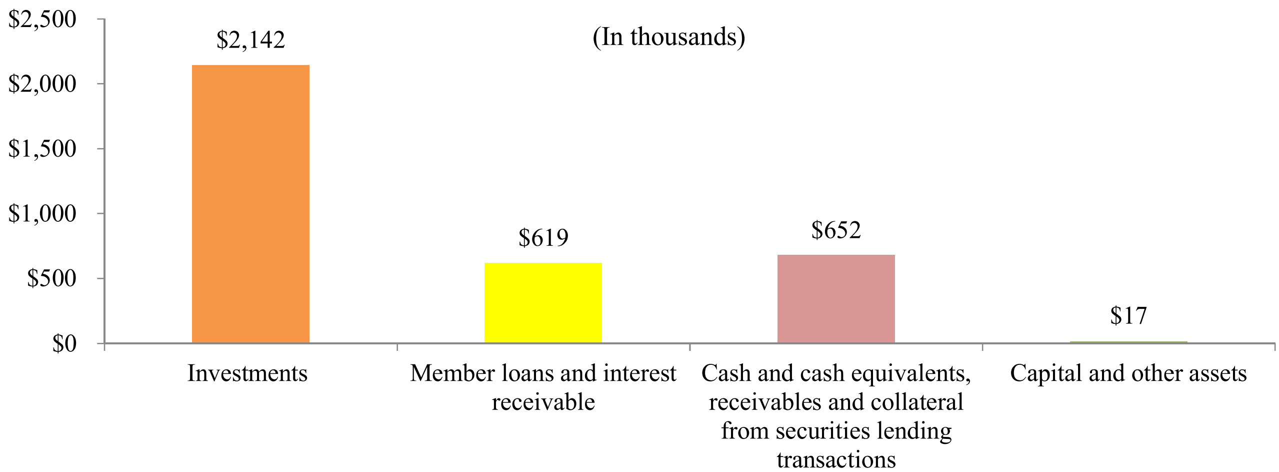
(Unaudited)

Financial Highlights

The System provides retirement benefits to employees of the Commonwealth. The System's total assets as of June 30, 2014 and 2013 amounted to $3,430 million and $3,979 million, respectively.

As of June 30, 2014, the System's total assets consisted of the following:

- $2,088 million of investments in bonds, stocks and nonexchange commingled trust funds
- $54 million in investments in limited partnerships
- $619 million in member loans and interest receivable
- $652 million in cash and cash equivalents, receivables and collateral from securities lending transactions.
- $17 million in capital and other assets



As of June 30, 2013, the System's total assets consisted of the following:

- $2,405 million of investments in bonds, stocks and nonexchange commingled trust funds
- $55 million in investments in limited partnerships
- $791 million in member loans and interest receivable
- $715 million in cash and cash equivalents, receivables and collateral from securities lending transactions
- $14 million in capital and other assets

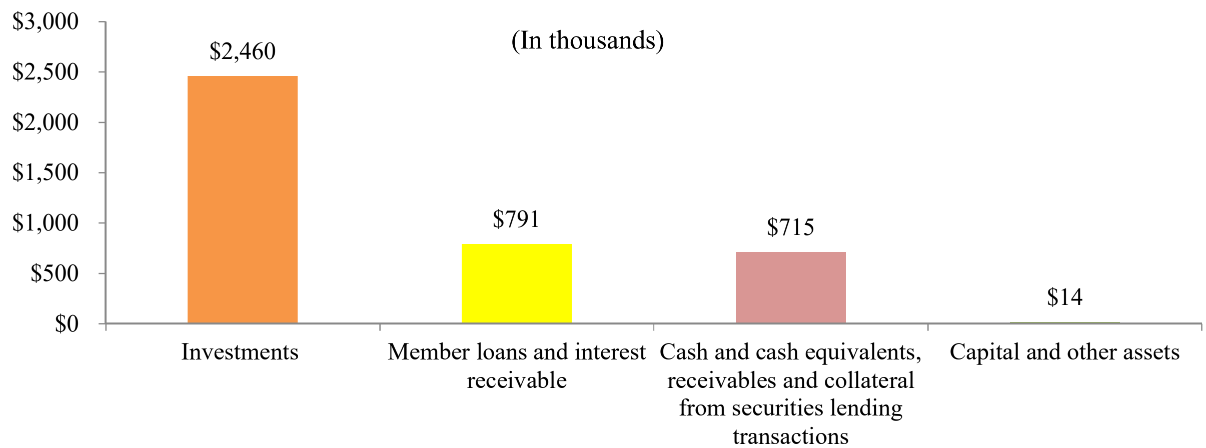
EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis

June 30, 2014

(Unaudited)



- The System's total assets exceeded total liabilities (fiduciary net position) by $81 million as of June 30, 2014, compared with fiduciary net position of $715 million as of June 30, 2013.
- Member loans and interest receivable amounted to $619 million as of June 30, 2014, compared to $791 million as of June 30, 2013.
- The plan's fiduciary net position as a percentage of the total pension liability was 0.27% at June 30, 2014.
- The medical insurance plan contribution, which constitutes the other postemployment healthcare benefits, is financed by the Commonwealth on a pay-as-you-go basis and consequently is unfunded.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis

June 30, 2014

(Unaudited)

The following schedules present comparative summary financial statements of the System's fiduciary net position and changes in fiduciary net position for fiscal years 2014 and 2013:

Comparative Summary of Fiduciary Net Position – Pension Benefits

	2014	2013 As restated and adjusted	Total dollar change	Total percentage change
	(Dollars in thousands)			
Assets:				
Cash and cash equivalents, receivables-net and collateral from securities lending transactions	$ 652,360	714,728	(62,368)	(8.7)%
Investments	2,142,022	2,459,874	(317,852)	(12.9)
Member loans and interest receivable – net	619,379	791,161	(171,782)	(21.7)
Capital assets and other	16,906	13,855	3,051	22.0
Total assets	3,430,667	3,979,618	(548,951)	(13.8)
Liabilities:				
Accounts payable and accrued liabilities	12,236	13,905	(1,669)	(12.0)
Bond interest payable	13,876	13,876	—	—
Payable for investment securities purchased	19,009	—	19,009	100.0
Securities lending obligations	126,648	124,411	2,237	1.8
Due to Commonwealth of Puerto Rico	37,082	—	37,082	100.0
Escrow funds of mortgage loans and guarantee insurance reserve for loans to plan members	7,895	7,483	412	5.5
Bonds payable	3,077,587	3,051,189	26,398	0.9
Other liabilities	55,668	53,697	1,971	3.7
Total liabilities	3,350,001	3,264,561	85,440	2.6
Net position restricted for pensions	$ 80,666	715,057	(634,391)	(88.7)%

(Continued)

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT
OF THE COMMONWEALTH OF PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis

June 30, 2014

(Unaudited)

Comparative Summary of Changes in Fiduciary Net Position – Pension Benefits

	2014	2013 As restated and adjusted	Total dollar change	Total percentage change
	(Dollar in thousands)			
Additions:				
Contributions:				
Employer contributions:				
Basic benefits	$ 485,114	424,704	60,410	14.2%
Special benefits	228,699	203,943	24,756	12.1
Member contributions	359,862	322,528	37,334	11.6
Net investment and securities lending transactions income	225,005	245,022	(20,017)	(8.2)
Other income	30,748	22,994	7,754	33.7
Total additions	1,329,428	1,219,191	110,237	9.0
Deductions:				
Benefits paid to participants	1,548,423	1,430,013	118,410	8.3
Refunds of contributions	166,335	52,307	114,028	218.0
Interest on bonds payable	192,947	191,135	1,812	0.9
General and administrative	29,530	33,078	(3,548)	(10.7)
Other expenses	26,584	16,246	10,338	63.6
Total deductions	1,963,819	1,722,779	241,040	14.0
Decrease in net position	(634,391)	(503,588)	(130,803)	26.0%
Net position restricted for pension:				
Beginning of year	715,057	1,237,532	(522,475)	(42.2)
Adjustment of beginning of year net position	—	(18,887)	18,887	(100.0)
End of year	$ 80,666	715,057	(634,391)	(88.7)

Refer to previous section "Overview of the Basic Financial Statements" for changes in the financial statements as required by GASB Statement No. 65 and by GASB Statement No. 67, and for a correction of immaterial errors.

Insolvency of the System

The discussion in note 3 to the financial statements provides information regarding the System's liquidity risk and uncertainties. Liquidity risk is the risk of not having sufficient liquid financial resources to meet obligations when they come due.

The System's net pension liability (under the newly adopted GASB Statement No. 67) and the funded ratio as of June 30, 2014, are approximately $30,139 million and 0.27%, respectively. The System has been in a deficit position since fiscal year 2015. Based on statutory funding requirements, the annual benefit payments and administrative expenses paid by the System were significantly larger than the employee and employer contributions received by the Systems. As described in note 10 to the financial statements, future employers' contributions of the System are pledged for the payment of debt service on the System bonds. Further depletion of the System' assets could result in the inability to pay benefits and bonds.

The estimate of when the System will become insolvent and when its assets will be exhausted is based on significant assumptions, including the rate of return on investments, the amount and timing of collections from the Commonwealth for the member and employer contributions, as well as the estimated participant benefits and the System's administrative expenses to be paid each year.

If the System becomes insolvent, it would be operating solely on a "pay as you go" basis, which means that the System would be unable to pay benefits that exceed the actual employer and member contributions received (net of administrative and other expenses), unless the Commonwealth and other participating employers provide the funding required to meet the "pay as you go" required benefits.

The System's funding requirements, together with the funding requirements of the Retirement System for the Judiciary of the Commonwealth of Puerto Rico and the Puerto Rico System of Annuities and Pensions for Teachers, could have a negative effect on the Commonwealth's General Fund, since the Commonwealth is the primary sponsor and is obligated to make contributions to fund each of the systems.

The Commonwealth and the other participating employers have been facing a number of fiscal and economic challenges in recent years due, among other factors, to continued budget deficits, a prolonged economic recession, high unemployment, population decline, and high levels of debt and pension obligations.

If the Commonwealth's financial condition does not improve as a result of fiscal and budgetary measures it is taking, its ability to repay its obligations, including its regular employer contributions to the System and its additional contribution as provided by Act No. 32 of 2013 (Act No. 32), for the upcoming years, may continue to be adversely affected, and could also affect the payment of benefits and the repayment of the System's bond payable.

Comparative Summary of Fiduciary Net Position Analysis – Pension Benefits

The basic financial statements of the System for the fiscal year ended June 30, 2014, present a decrease in net position restricted for pensions of approximately $634 million or 88.7%, when compared to the prior fiscal year which resulted from the excess of deductions, mainly benefits paid to participants, over additions, mainly contributions from participating employers and employees. The decrease in net position mainly caused a decrease in loans and interest receivable from plan members of $172 million and a decrease in investments of $318 million. The Board of Trustees approved the sale of personal loans. During the years ended June 30, 2014 and 2013, personal loans with principal balances amounting to approximately $100 million and $88 million, respectively, were sold to two financial institutions.

Total contributions from participating employers and members increased by approximately $123 million, from $951 million during fiscal year 2013 to $1,074 million during fiscal year 2014. The System recognized a net appreciation in the fair value of investments of $125 million during 2014, which represents an increase of $4 million from the net appreciation of $121 million recognized in 2013.

Total deductions increased by $241 million in fiscal year 2014, mainly as a result of the increase of $118 million in benefits paid to participants and the increase of $114 million in the refunds of contributions paid to participating employees who resigned mainly as a result of implementation of Act No. 3 of 2013 (Act No. 3). Benefits paid to participants amounted to $1,548 million for the fiscal year 2014 and $1,430 million for the fiscal year 2013.

During fiscal year 2007, the Board of Trustees approved the issuance of bonds payable to increase the funds available to pay pension benefits to certain beneficiaries and to reduce the unfunded accrued actuarial liability. As of June 30, 2014, bonds payable amounted to $3,078 million.

Other Postemployment Healthcare Benefits

Other postemployment healthcare benefits paid during the fiscal year 2014 amounted to $102 million, an increase of 11% when compared to the $92 million paid during fiscal year 2013.

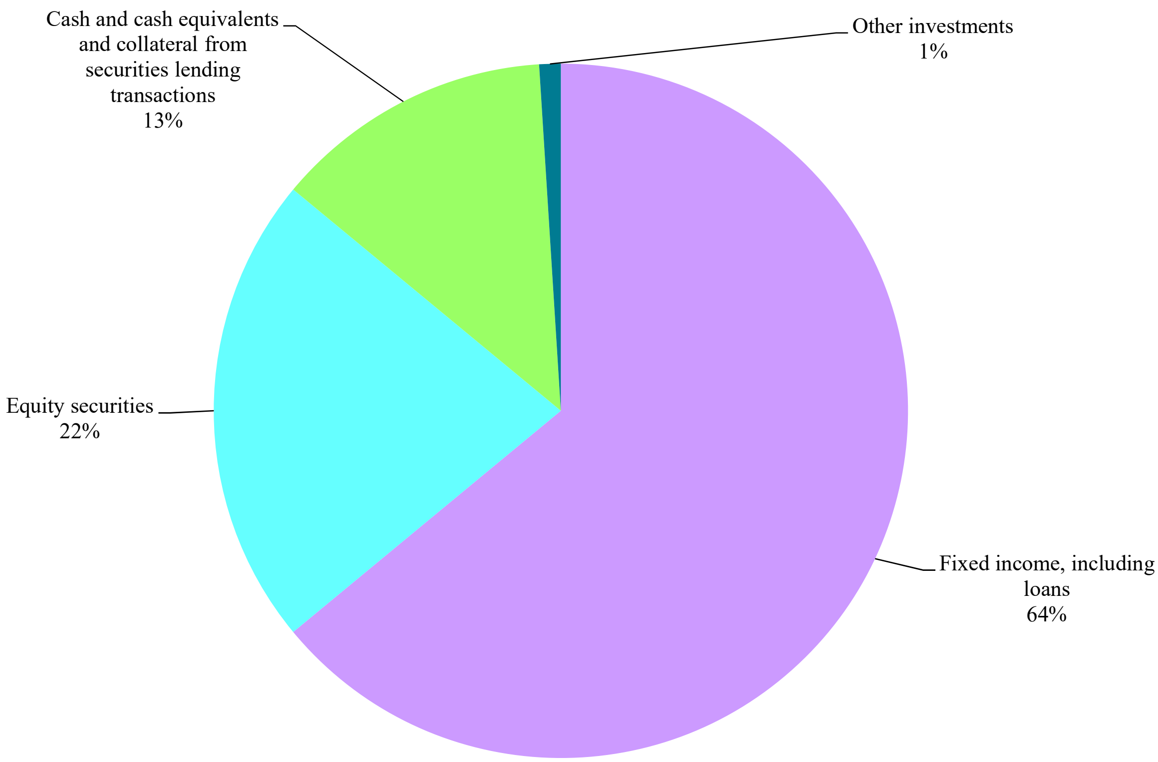
Financial Analysis of the System

As of June 30, 2014 and 2013, the System held approximately $619 million and $791 million, respectively, in loans and interest receivable from plan members, which represents 22% and 24%, respectively, of the total investment portfolio, including loans. As of June 30, 2014, member loans and interest receivable consisted of $164 million in mortgage loans, $374 million in personal loans, $45 million in cultural trips loans, and $40 million in interest receivable, less $4 million in allowance for adjustments and losses in realization. As of June 30, 2013, member loans and interest receivable consisted of $160 million in mortgage loans, $528 million in personal loans, $68 million in cultural trips loans, and $40 million in interest receivable, less $5 million in allowance for adjustment and losses in realization. As of June 30, 2014 and 2013, the fair value of the System's investment in limited partnerships amounted to $54 and $55 million, respectively, which represented approximately 3% of the investment portfolio, as of June 30, 2014 and 2013.

The System earns additional investment income by lending investment securities to brokers via its custodian's securities lending program. The brokers provide collateral to the System and generally use the borrowed securities to cover short sales and failed trades. The cash collateral received from the brokers is invested in a short-term investment fund in order to earn interest. For the years ended June 30, 2014 and 2013, net income from the securities lending activity amounted to approximately $298,000 and $115,000, respectively.

Investment Portfolio and Capital Markets Overview

As of June 30, 2014, the System's asset allocation was 64% in fixed-income investments, including loans receivable, 22% in equity securities, 13% in cash and short-term investments, and 1% in other investments as shown in the following chart:



Economy and Capital Markets Overview

The beginning of the 2014 Fiscal Year was rewarding for investors as the Dow Jones U.S. Total Stock Market Index hit a new all-time high in September 2013, and international equities soared as Europe emerged from its recession. Equity valuations continued to be driven by external forces during the first quarter of the fiscal year, including continued loose monetary policy and congressional gridlock in Washington due to debates over the Affordable Care Act, the debt ceiling limit, and the lead up to the first government shutdown since 1995-1996. In September 2013, the Federal Open Market Committee (FOMC) surprised investors with the decision to not taper its $85 billion in monthly bond purchases. Meanwhile, in Europe, disappointing economic growth numbers, coupled with very low inflation rates prompted the European Central Bank (ECB) to cut their main policy interest

rate from an ultra-low 0.50% to 0.25%. On the eve of the New Year, equity markets continued to rise as the S&P 500 reached an all-time high. The end of 2013 also marked the end of Ben Bernanke's tenure as the Federal Reserve Chairman; Janet Yellen was nominated to succeed Mr. Bernanke. Additionally, the FOMC finally announced that it would begin to taper the rate of Treasury and mortgage-backed securities purchases by $10 billion and that it intended to do so throughout 2014. As a result, the 10-Year Treasury yield rose to a period high of 3.0% to close the year and drove fixed income market returns into negative territory.

Moving into the second half of the fiscal year, global equity markets struggled as unusually harsh winter weather was blamed for disappointing economic data in the US. Political turmoil in Ukraine and Turkey, coupled with weak economic data from China, triggered a sell-off in emerging markets. The economic uncertainty around the globe prompted a "risk-off" environment during the first quarter of 2014 and resulted in a flight to quality into US Treasuries, driving long yields lower. However, new Fed Chairman, Janet Yellen, commented that a rise in the policy rate may occur as soon as six months following the end of Quantitative Easing which led short term rates higher. The fiscal year ended on a more positive note as both equity and fixed income markets experienced positive returns bolstered by improvement in US economic data, easing tensions in Ukraine, and monetary easing in Europe. Overseas, the European Central Bank further loosened its monetary policy stance and proposed a series of measures to avoid deflationary pressures in the Euro Zone. In Japan, while no further policy measures were seen, the government proposed plans to combat the continuing risk of deflation and to revitalize the Japanese economy. In addition, conditions in emerging markets overall improved as investor attention seemed to have moved past the political turmoil between Russia and Ukraine. Bond markets were also buoyed by the Fed's firm commitment to keep policy interest rates very low for an extended period beyond the end of 2015.

With continued support from the Fed and mostly positive economic news, domestic equity markets trended upwards throughout the fiscal year, returning 25.0%. Developed international markets posted a 23.6% return supported by monetary easing by the ECB. Emerging markets trailed the broader market, returning 14.3%, as confrontation escalated in Ukraine and continuing concerns regarding China's growth prospects weighed on performance. The broad U.S. fixed income market experienced modest performance relative to equity markets and returned 4.4% during the period. The yield on the 10-Year U.S. Treasury ended the fiscal year roughly where it began at 2.5% after declining from its peak of 3.0% following the FOMC's decision to begin tapering its quantitative easing program.

Industry Indices Performance Overview

Total Fund Performance

The System's total investments, including member loans, returned 11.2% during the 2014 Fiscal Year, underperforming its policy benchmark by 0.11 percentage points. The System's total assets, including member loans and operational cash, as of June 30, 2014 totaled $3,430 million.

The table below shows the System's asset allocation at the end of the 2014 Fiscal Year.

Indices	FY 2013-14	First quarter FY 2014	Second quarter FY 2014	Third quarter FY 2014	Fourth quarter FY 2014
Dow Jones United States	25.0%	6.2%	10.1%	2.0%	4.8%
S&P 500	24.6	5.2	10.5	1.8	5.2
S&P/Citigroup Large Growth	27.1	6.6	11.1	1.4	5.8
S&P/Citigroup Large Value	22.0	3.8	9.8	2.3	4.6
Russell 3000	25.2	6.3	10.1	2.0	4.9
Russell 2000 Index	23.6	10.2	8.7	1.1	2.0
Russell 2000 Growth	24.7	12.8	8.2	0.5	1.7
Russell 2000 Value	22.5	7.6	9.3	1.8	2.4
MSCI ACW ex-U.S.	21.8	10.1	4.8	0.5	5.0
MSCI EAFE	23.6	11.6	5.7	0.7	4.1
MSCI Emerging Markets	14.3	5.8	1.8	(0.4)	6.6
Barclays Aggregate Bond Index	4.4	0.6	(0.1)	1.8	2.0
Barclays Intermediate Credit	5.2	1.0	0.7	1.6	1.8

The System's total investments, excluding member loans, generated a return of 11.9% during the 2013-2014 fiscal year, outperforming its policy benchmark by 0.6 percentage points. Outperformance was primarily a result of being overweight United States and international equities relative to the long-term target weights as equities overall outperformed fixed income. The overweight allocation to equities was a consequence of the System gradually de-risking its investment program (shifting from equities into bonds). This transition was concluded at the end of the fiscal year. The System's total investments, excluding member loans as of June 30, 2014 totaled $2,142 million.

United States Equity Overview for the Fiscal Year 2014

U.S. stocks as measured by the Dow Jones U.S. Total Stock Market Index gained 25.0% during the fiscal year. All sectors produced positive returns during the fiscal year led by information technology and materials, which were the top performing sectors. From a style perspective, growth stocks outpaced value stocks across large and small cap markets, while value stocks bested growth in the mid cap space. On a capitalization basis, mid cap stocks were the best performers during the period, followed by large and small cap stocks.

The System's domestic equity component returned 24.9% during the fiscal year, underperforming its benchmark, the Russell 3000 Index Fund, by 0.3 percentage points. Underperformance was due to the impact of cash flow timing and withdrawals. The Russell 3000 Index Fund matched its benchmark during the period. Approximately $275.0 million was redeemed from the domestic equity component during the fiscal year in order to meet the cash needs of the System. As of June 30, 2014, the System's domestic equity assets totaled $513.6 million and represented approximately 16.9% of the System's total assets, including loans and operational cash.

International Equity Overview for the Fiscal Year 2014

International equities, as measured by the MSCI ACW ex-U.S. Index, gained 21.8%. The index posted positive returns for four consecutive quarters as monetary easing from the ECB provided support. Europe ex-U.K. and the U.K. were the strongest performing regions over the fiscal year.

During the fiscal year, the System's international equity component gained 21.0%, trailing its benchmark by 0.8 percentage points. Underperformance was due to the impact of cash flow timing and withdrawals made. The SSgA ACW ex-U.S. Index Fund experienced modest positive tracking error during the period. Approximately $85.0 million was redeemed from the component during the fiscal year in order to meet the cash needs of the System. At the end of the fiscal year, the component had $167.9 million in assets, representing 5.5% of the System's total assets, including loans and operational cash.

The U.S. fixed income market, as measured by the Barclays Aggregate Bond Index, produced positive results in three of four quarters returning 4.4% in the fiscal year. The Barclays Intermediate Credit Index, the System's benchmark for its fixed income portfolio, outperformed the broader U.S. fixed income market gaining 5.2%. All underlying sectors generated positive returns during the period, with the corporate bond sector providing the strongest returns followed by the mortgage-backed securities and commercial mortgage-backed securities sectors. Long duration bonds outperformed shorter duration bonds while lower quality maturities outpaced those of higher quality.

The System's fixed income component gained 5.1% during the one year period ending June 30, 2014, outperforming its benchmark by 0.2 percentage points. Taplin, Canida, & Habacht, Santander, and Mesirow contributed to performance, while Chicago Equity Partners, Popular, and Barrow Hanley detracted from results. The SSGA Intermediate Credit Index Fund had modest negative tracking error. At the end of the fiscal year, fixed income assets totaled $1,309.8 million, consisting of approximately 43.2% of the System's total assets, including loans and operational cash. Approximately $157.0 million was redeemed from the component during the fiscal year in order to meet the cash needs of the System. (Additional information on the transactions can be found under the Other Investments and Transactions section of this memorandum).

Other Investments and Member Loans Transactions

As of June 30, 2014, the System held $619 million in member loans which represented 18.1% of the total portfolio's assets, including loans and operational cash. Member loan balances as of June 30, 2014 were $172 million lower than a year ago.

At the end of the 2014 Fiscal Year, the System had some exposure to limited partnerships of private equity investments valued at approximately $54 million, which represented 1.6% of the System's total assets, including member loans and operational cash.

In order to meet the cash needs of the System, the following transactions occurred during the 2014 Fiscal Year:

- $170.0 million, $85.0 million, and $20.0 million were redeemed from the SSGA Russell 3000 Index, SSGA ACW ex-U.S. Index, and SSGA Intermediate Credit Index Funds, respectively, in November.

- $40.0 million and $25.0 million were redeemed from the SSGA Intermediate Credit Index Fund and Mesirow, respectively, in December 2013.
- $105.0 million and $72.0 million were redeemed from the SSGA Russell 3000 Index and SSGA Intermediate Credit Index Funds, respectively, in May 2014.
- $35.0 million was transferred from the SSGA ACW ex-U.S. Index Fund to the SSGA Russell 3000 Index Fund for rebalancing purposes to better align allocations to long-term policy target weights.
- $100 million member loans were sold to two financial institutions.

Funding Status

The System was created by Act No. 447 of May 15, 1951 (Act No. 447) and, since its inception, lacked proper planning. The levels of contributions were relatively low and still remain low in comparison to the level of benefits. In addition, all retirement systems in place before 1951 were merged into the System, which then had to absorb all of their unfunded liabilities. Afterwards, in 1973, the benefits structure was enhanced without the appropriate increase in contribution levels. As more people joined the government labor force and then retired under the new enhanced benefit structure, the gap between the assets available to pay benefits and the actuarial obligation started its steeping course.

In 1990, in an effort to withstand the increase in the unfunded liability, the benefit structure was modified to decrease the benefits and to postpone the retirement age from 55 to 65, in order to provide a more affordable benefit structure. Also, the level of contributions was raised and Act No. 447 was amended to provide that any increase in benefits would require actuarial studies and identification of the financing source.

Ten years later, the continuing increase in the unfunded liability required further action. As a result, the original defined benefit structure was closed to new plan members joining the System on or after January 1, 2000. To provide a retirement alternative, the pension benefit structure was further amended by Act No. 305 of September 24, 1999 (Act No. 305) to provide for a cash balance program, similar to a cash balance plan, to be funded only by participating employees' contributions. That program is known as the Retirement Savings Account Program (System 2000). Under System 2000, the employers' contributions continue at the same level as the original defined benefit structure, but are being used to fund the accrued actuarial liability of the original defined benefit structure that was closed. Also under System 2000, the disability benefits are to be provided through a private insurance long term disability program to those plan members that voluntarily elect to enroll in such program. On September 15, 2004, Act No. 296 was enacted to amend the dispositions of Act No. 305 regarding disbursements and the disability benefits program. After the amendment, any plan member that leaves public service may request that the balance in his/her savings account be transferred to a qualified retirement vehicle such as an individual retirement account or a qualified retirement plan in Puerto Rico. Act No. 296 of 2004 also provides flexibility on the establishment of the disability program; but still, the employees must finance the program.

Presently, the pension plan consists of three different benefit structures, which are administrated according to their specifications in each Act. For all plan members, excluding System 2000 participants, the level of contributions established by law is 8.275% of the employee salary. Under System 2000, employee contributions range from

8.275% to 10% of the salary, as specified by the employee. Under all structures, employers' contributions during the year ended June 30, 2014 were 12.275% of the employee salary.

On February 27, 2007, the System's administration and the Government Development Bank for Puerto Rico, acting as the System's fiscal agent, presented to the Board of Trustees a financial transaction for the issuance of pension funding bonds. The System authorized the issuance of one or more series of bonds (the Bonds) in order to increase the funds available to pay pension benefits and to reduce the unfunded accrued actuarial pension liability. The System pledged future employers' contributions to the payment of the Bonds, invested the proceeds of the Bonds, and used these investments and the earnings thereon to provide pension benefits to beneficiaries. On January 31, 2008, the System issued the first series of the Bonds, which consisted of approximately $1,589 million aggregate principal amount of Senior Pension Funding Bonds, Series A. On June 2, 2008, the System issued the second of such series of Bonds, which consisted of approximately $1,059 million aggregate principal amount of Senior Pension Funding Bonds, Series B. Finally, on June 30, 2008, the System issued the third and final of such series of Bonds, which consisted of approximately $300 million aggregate principal amount of Senior Pension Funding Bonds, Series C.

Nevertheless, the System's actuarial obligation continues its increasing trend as a result of the continuous increase in the pensioners' population and its longevity and the fact that incoming pensioners have higher salaries and consequently, they are entitled to even higher annuities. Since 1990, there have been no other increases in the employers' or participating employees' contributions to cope with those factors and, therefore, the level of contributions remains low in comparison to the level of pension benefits.

Market events, plus the continuous increase in the actuarial liability have had a negative effect over the employers' net pension liability. Based on the last actuarial valuation at June 30, 2014, the Employers' net pension liability amounted to $30,139 million, with a Plan's fiduciary net position as a percentage of the total pension liability of 0.27%. The unfunded liability for postemployment healthcare benefits amounted to approximately $1,438 million as of June 30, 2014 and was fully unfunded.

The bottom line is that the capital markets by themselves cannot solve the System's funding problem. In order to improve the System's funding ratio, the Commonwealth enacted Law 116 increasing the employers' contribution rate from 9.275% to 10.275% of employee compensation for the 2011-2012 fiscal year, 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. Other measures taken to improve the System's funding, include 1) improving the collection of late contributions by receiving such contributions directly from the Municipal Revenue Collection Center (known as CRIM by its Spanish acronym) when a municipality fails to send their contributions within 30 days from the due date or from the Department of Treasury of the Commonwealth in the case of public corporations; 2) implementation of Act No. 70 establishing early retirement incentives; 3) revision of the Employee Personal Loan Policy by reducing personal and cultural loan amounts to $5,000 each, from $15,000 and $10,000, respectively; and 4) the receipt of $162.5 million in bonds issued by the Puerto Rico Sales Tax Financing Corporation (known as COFINA by its Spanish acronym).

In 2013, the Commonwealth enacted legislation that reformed the System by, among other measures, reducing benefits, increasing employee contributions, and, in the case of active employees who were entitled to the defined

benefits program, replacing most of the defined benefit elements of the system with a defined contribution system. Based on the statutory funding requirements prior to this reform, the annual benefit payments and administrative expenses of the System were significantly larger than the member and employer contributions made to the System. The reform intended to address the Commonwealth's future cash flow needs and "pay-as-you-go" requirements, while recognizing that the System would continue to have a large unfunded actuarial accrued liability and a low funded ratio. As such, the reform was intended to provide enough cash for the System to be able to pay benefits (as amended through the reform) and debt service on the pension obligation bonds, while maintaining projected System gross assets at no less than $1 billion at all times.

In order to achieve this goal, the reform contemplated that the Commonwealth and other participating employers would have to provide additional annual funding above the statutorily prescribed contributions as required by Act No. 32. As a long-term plan, it was recognized that constant monitoring would be required to ensure that the System remained on track to meet the reform's goals. The receipt of the additional uniform contribution of Act No. 32 is critical to the System's ability to make payments as they become due.

On April 4, 2013, the Legislature enacted Act No. 3 which amended Act No. 447, Act No. 1 of 1990 (Act No. 1) and Act No. 305 to establish, among other things, a defined contribution program similar to the System 2000 Program (the Contributory Hybrid Program) to be administered by the Retirement System. All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the Defined Benefit Program and the System 2000 Program, and were rehired on or after July 1, 2013, become members of the Contributory Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous plans will become part of the Contributory Hybrid Program. Act No. 3 froze all retirement benefits accrued through June 30, 2013 under the Defined Benefit Program, and thereafter, all future benefits will accrue under the defined contribution formula used for the 2000 System Program participants. Ceasing future defined benefit accruals under Act No. 447 and Act No. 1 and converting to a member-funded hybrid plan will result in lower benefit payments as these tiers wind down, and will make all future employer contributions available to pay benefits and bonds payable debt service.

Capital Assets

The System's investment in capital assets as of June 30, 2014 and 2013 amounted to approximately $11 million and $9 million, respectively, net of accumulated depreciation. Capital assets include land, building and improvements, construction in progress, and equipment. Building and improvements consist of the facilities in which the System has its operations. Refer to note 9 to the basic financial statements for further information regarding the System's net capital assets.

Debt Administration

Long-term debt obligations include the System's senior funding bonds and amounted to $3,078 million and $3,051 million as of June 30, 2014 and 2013, respectively. The System has issued three series of revenue bonds designated as "Senior Pension Funding Bonds", the proceeds of which have been used mainly to increase the funds currently available to pay pension benefits to certain of its beneficiaries and reduce its unfunded actuarial accrued liability. The Bonds are limited, nonrecourse obligations of the System, payable solely from and secured solely by a pledge of employer contributions made after the date of issuance of the first series of Bonds, and from funds held on deposit with the Bank of New York Mellon (the Fiscal Agent). The Bonds are not payable from contributions made to the System by participating employees, or from the assets acquired with the proceeds of the Bonds, or from employer contributions released by the Fiscal Agent to the System after funding of required reserves, or from any other assets of the System. These bonds are currently rated "Ca" by Moody's Investors Service and "CC" by Standard & Poor's Ratings Services. Refer to note 10 to the basic financial statements for further information regarding the System's long-term obligations.

Subsequent Events

On April 6, 2016, the Governor of Puerto Rico signed into law the Puerto Rico Emergency Moratorium and Rehabilitation Act ("Act No. 21"). Among other objectives, Act No. 21 allows the Governor to declare – at some point in the future – a moratorium on debt service payments and to stay related creditor remedies for a temporary period for the Commonwealth, the GDB, the Economic Development Bank for Puerto Rico, and certain additional government instrumentalities in Puerto Rico, including the System. The temporary period set forth in Act No. 21 lasts until January 31, 2017, with a possible two-month extension in the Governor's discretion. The provisions regarding the moratorium and stay in respect of any obligations owed by the System require executive action of the Governor to become effective. At this time, the Governor has not taken any executive action in respect of the System, and Act No. 21 does not currently affect the System's obligations, including to make debt service payments.

On April 8, 2016, the Governor of Puerto Rico signed an executive order, EO-2016-010 (the "Executive Order"), declaring GDB to be in a state of emergency pursuant to Act No. 21. The Executive Order, in accordance with the emergency powers provided for in Act No. 21, implemented a regulatory framework governing GDB's operations and liquidity, including establishing a procedure with respect to governmental withdrawals, payments, and transfer requests in respect of funds held on deposit at GDB and loan disbursements by GDB. The procedures implemented by the Executive Order may result in restrictions on the ability of the System to withdraw any funds held on deposit at GDB or to receive any disbursements on loans granted by GDB during the period of the Executive Order, which is in effect until June 30, 2016. However, while the Executive Order created a stay on the enforcement of certain financial debt obligations of GDB, it did not impose a moratorium on any financial debt obligation of GDB. The Executive Order did not declare an emergency period for the Commonwealth itself, the System or any other entity, other than GDB.

Requests for Information

The financial report is designed to provide a general overview of the System's finances, comply with related laws and regulations, and demonstrate commitment to public accountability. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Commonwealth of Puerto Rico Government Employees and Judiciary Retirement Systems Administration, 437 Ponce de León Avenue, Hato Rey, Puerto Rico 00918.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT
OF THE COMMONWEALTH OF PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Fiduciary Net Position

June 30, 2014

(In thousands)

	Pension	Post employment healthcare benefits	Total
Assets:			
Cash and cash equivalents:			
Deposits with Government Development Bank for Puerto Rico (GDB)			
Unrestricted	$ 53,510	—	53,510
Restricted	17,998	—	17,998
Deposits with GDB held by the Puerto Rico Department of Treasury	3,470	—	3,470
Deposits at commercial banks – restricted	12,529	—	12,529
Money market funds:			
Unrestricted	64,824	—	64,824
Restricted	112,711	—	112,711
U.S. Treasury bill – restricted	4,450	—	4,450
Total cash and cash equivalents	269,492	—	269,492
Receivables, net:			
Employers – net of allowance for uncollectible accounts of $82,848	195,803	—	195,803
Due from Retirement System for the Judiciary of the Commonwealth of Puerto Rico	19,122	—	19,122
Accrued investment income	9,500	—	9,500
Investments sold	10,976	—	10,976
Other	20,819	—	20,819
Total receivables, net	256,220	—	256,220
Collateral from securities lending transactions	126,648	—	126,648
Investments:			
Bonds and notes	1,337,292	—	1,337,292
Nonexchange commingled trust funds	750,482	—	750,482
Investments in limited partnerships	54,146	—	54,146
Stocks	102	—	102
Total investments	2,142,022	—	2,142,022
Member loans and interest receivable – net	619,379	—	619,379
Capital assets – net	11,211	—	11,211
Other assets	5,695	—	5,695
Total assets	$ 3,430,667	—	3,430,667

(Continued)

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Fiduciary Net Position

June 30, 2014

(In thousands)

		Pension	Post employment healthcare benefits	Total
Liabilities:				
Accounts payable and accrued liabilities	$	12,236	—	12,236
Bond interest payable		13,876	—	13,876
Payable for investment securities purchased		19,009	—	19,009
Securities lending obligations		126,648	—	126,648
Due to Commonwealth of Puerto Rico		37,082	—	37,082
Escrow funds of mortgage loans and guarantee insurance reserve for member loans		7,895	—	7,895
Bonds payable		3,077,587	—	3,077,587
Other liabilities		55,668	—	55,668
Total liabilities		3,350,001	—	3,350,001
Contingencies (notes 2 and 15)				
Net position restricted for pensions	$	80,666	—	80,666

See accompanying notes to basic financial statements.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT
OF THE COMMONWEALTH OF PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Changes in Fiduciary Net Position

Year ended June 30, 2014

(In thousands)

	Pension	Post employment healthcare benefits	Total
Additions:			
Contributions:			
Employer contributions:			
Basic benefits, net of provision for uncollectible contributions of $82,848	$ 485,114	—	485,114
Special benefits	228,699	102,085	330,784
Member contributions	359,862	—	359,862
Total contributions	1,073,675	102,085	1,175,760
Investment income:			
Net appreciation in fair value of investments	124,907	—	124,907
Interest	103,005	—	103,005
Dividends	75	—	75
Less investment expense, other than from securities lending	(3,280)	—	(3,280)
Net income from investing, other than from securities lending	224,707	—	224,707
Securities lending income	399	—	399
Less securities lending expenses	(101)	—	(101)
Net income from securities lending	298	—	298
Net investment income	225,005	—	225,005
Other income	30,748	—	30,748
Total additions	1,329,428	102,085	1,431,513
Deductions:			
Benefits paid to participants:			
Annuities	1,389,103	—	1,389,103
Special benefits	134,882	102,085	236,967
Death benefits	24,438	—	24,438
Refunds of contributions	166,335	—	166,335
Interest on bonds payable	192,947	—	192,947
General and administrative	29,530	—	29,530
Other expenses	26,584	—	26,584
Total deductions	1,963,819	102,085	2,065,904
Net decrease in net position	(634,391)	—	(634,391)
Net position restricted for pensions:			
Beginning of year, as previously reported	731,342	—	731,342
Adjustment of beginning of year net position (note 16)	(16,285)	—	(16,285)
End of year	$ 80,666	—	80,666

See accompanying notes to basic financial statements.

(1) Organization

The Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the "System") is a trust created by the Legislature of the Commonwealth of Puerto Rico (the Commonwealth) pursuant to Act No. 447 on May 15, 1951 (Act No. 447), as amended, to provide pension and other benefits to retired employees of the Commonwealth, its public corporations and municipalities of Puerto Rico. The System administers a cost-sharing, multi-employer, pension plan (the pension plan). The System also administers post-employment healthcare benefits provided by the Commonwealth to retired plan members (the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities Medical Insurance Plan Contribution – ERS MIPC), an unfunded, cost-sharing, multi-employer defined benefit other postemployment benefit.

The System is considered an integral part of the financial reporting and is included in the Commonwealth's basic financial statements as a pension trust fund. The System, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). Income earned by the System is not subject to Federal and Puerto Rico taxes.

The System's governance is vested in a Board of Trustees (the Board), which sets policy and oversees the operations consistent with applicable laws. There are eleven members of the Board, as follows: the Puerto Rico Secretary of the Treasury (or her appointee), the President of the Government Development Bank for Puerto Rico (or his appointee), the Commissioner of Municipal Affairs (or his appointee) and the Director of the Office of Human Resources of the Commonwealth (or his appointee), as ex officio members; three members appointed to three-year terms by the Governor of the Commonwealth (the Governor), two of whom must be members of the System and one member of the Retirement System for the Judiciary of the Commonwealth of Puerto Rico, with at least ten years of credited service; and two members who are a pensioners of each system. The other two members are the President of the Federation of Mayors and the President of the Association of Mayors. The Board is also responsible for appointing the Administrator of the System.

The System and the Retirement System for the Judiciary of the Commonwealth of Puerto Rico (JRS), also a component unit of the Commonwealth, are both administered by Puerto Rico Government Employees and Judiciary Retirement Systems Administration (the Administration). The Administration allocated 98.43% of its general and administrative expenses to the System during the year ended June 30, 2014. The methodology used to determine the allocation is based on total employer and participating employees' contributions to the System, divided by the aggregate total of employers' and participating employees' contributions to the System and JRS, combined.

(2) Summary of Significant Accounting Policies

The following are the significant accounting policies followed by the System in the preparation of its financial statements:

(a) Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP) as applicable to governmental organizations. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has legal requirement to provide the contributions. Benefits and refunds are recognized when legally due and payable.

(b) Use of Estimates

The preparation of the basic financial statements requires management to make significant estimates and assumptions relating to the reporting of assets and liabilities and in the disclosures of contingencies to prepare these financial statements in conformity with GAAP. The System's most significant estimates relate to the total pension liability, and the valuation of certain investments. Due to the inherent nature of these estimates, actual results could differ from those estimates.

(c) Cash and Cash Equivalents

Cash equivalents include all highly liquid debt instruments with original maturities of three months or less from the date of acquisition. Cash and cash equivalents consist of money market funds, U.S. Treasury bill, and certificates of deposit in Government Development Bank for Puerto Rico (GDB) (a component unit of the Commonwealth) and in commercial banks. Restricted cash deposited with GDB consists of payments received from mortgage loan holders in the servicing of loans (escrow accounts), expired checks not claimed by the plan members, restricted for repayments, and temporary amounts to be transferred to the Bank of New York Mellon (trustee) restricted for bond debt service requirements. Restricted money market funds consist of funds held by the trustee to maintain the debt service funds and the sinking funds for the repayment of the System's bonds payable.

(d) Investments

Investments are reported at fair value. The fair value of investments is based on quoted prices, if available. The System has investments in limited partnerships and nonexchange commingled trust funds valued at approximately $54 million and $750 million, respectively, as of June 30, 2014. Fair values of investments in limited partnerships have been estimated in the absence of readily determinable fair values, based on information provided by the underlying fund managers. Nonexchange commingled trust funds are reported at their net asset value (NAV). The NAV includes the market value of the securities in the fund plus any receivables, payables, and accrued fund expenses.

Securities purchases and sales are recorded on a trade-date basis. Realized gains and losses from the sale of securities and unrealized changes in the fair value of outstanding securities are included in net

appreciation (depreciation) in fair value of investments. Realized gains and losses are computed as the difference between the proceeds of the sale and the cost of the investment sold, determined by the average cost method. Interest income is recorded as earned on an accrual basis. Dividend income is recorded on the ex-dividend date.

(e) Member Loans

Mortgage, personal, and cultural trip loans to plan members are stated at their outstanding principal balance less an allowance for uncollectible amounts. The maximum amount that may be loaned to plan members for mortgage loans is $100,000, and $5,000 for personal, and cultural trip loans.

The System services mortgage loans with aggregate principal balances of approximately $3.2 million at June 30, 2014, related to certain mortgage loans sold to the Federal National Mortgage Association for a fee of 0.25%. The sale contract stipulates that the System must repurchase any loans with payments in arrears over 90 days.

(f) Guarantee Insurance Reserve for Member Loans

Premiums collected and benefits claimed are recorded as additions and deductions, respectively. The guarantee insurance reserve for life insurance on loans to plan members is revised each year and adjusted accordingly based on the annual higher claim amount of a five-year period increased by a management determined percentage.

(g) Capital Assets

Capital assets include building, building improvements, and furniture and equipment. The System defines capital assets as assets with an initial individual cost of $500 or more at the date of acquisition and a useful life equal to or in excess of four years. Capital assets are recorded at historical cost, or their estimated historical cost, if actual historical costs are not available. Donated capital assets are recorded at their estimated fair value at time of donation.

Capital assets are depreciated on the straight-line method over the assets estimated useful life. There is no depreciation recorded for construction in progress. The estimated useful lives of capital assets are as follows:

	Years
Building	50
Buildings improvements	10
Equipment, furniture, fixtures, and vehicles	5–10

(h) Termination Benefits

The System accounts for termination benefits in accordance with GASB Statement No. 47, *Accounting for Termination Benefits*. Pursuant to the provisions of GASB Statement No. 47, the System, as an employer, should recognize a liability and expense for voluntary termination benefits (for example,

early retirement incentives) when the offer is accepted and the amount can be estimated. A liability and expense for involuntary termination benefits (for example, severance benefits) should be recognized when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees, and the amount can be estimated.

(i) Adoption of Accounting Pronouncements

The following new accounting pronouncements were adopted by the System effective July 1, 2013:

a. Effective July 1, 2013, the System adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 also requires that debt issuance costs be recognized as a deduction in the period incurred in the statement of changes in fiduciary net position. The impact of adopting GASB Statement No. 65 was to decrease the fiduciary net position as of July 1, 2013 by approximately $29,981,000 reflecting the cumulative retrospective effect of derecognizing the debt issuance costs which had previously been deferred in the statement of fiduciary net position.

b. Effective July 1, 2013, the System adopted GASB Statement No. 67, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25*. GASB Statement No. 67 establishes standards of financial reporting for separately issued financial reports and specifies the required approach to measuring the net pension liability of employers for benefits provided through the pension plan, about which information is required to be presented. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB Statement No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria.

   GASB Statement No. 67 requires the disclosures of the components of the net pension liability and the assumptions and other methods used to measure the total pension liability. GASB Statement No. 67 also requires certain additional note disclosures for defined benefit pension plans including the annual money-weighted rate of return on plan investments. GASB Statement No. 67 revised the reporting requirements for required supplementary information to include schedules that provide trend information related to 1) changes in the net pension liability and related ratios, 2) the actuarially and contractually determined contributions of employer contributing entities, and 3) the annual money-weighted rate of return on plan investments.

   Adoption of GASB Statement No. 67 did not impact the fiduciary net position of the System; however certain changes to note disclosures and required supplementary information have been incorporated to comply with the new standard.

(j) Recently Issued Accounting Pronouncements

GASB Statement No. 72, *Fair Value Measurement and Application*, addresses accounting and financial reporting issues related to fair value measurements. The new requirements improve the comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB Statement No. 72 provides fair value application guidance and requires a government to make disclosures about its fair value measurements, the level of fair value hierarchy, and valuation techniques. Additional disclosures are required for certain entities that calculate the net asset value per share (or its equivalent). This Statement is effective for fiscal years beginning after June 15, 2015. Earlier application is encouraged. No impact is expected on the reported amount of investments.

(3) Liquidity Risk and Uncertainties

The System is a mature retirement system with a significant retiree population. Based on the statutory funding requirements, the annual benefit payments and administrative expenses paid by the System were significantly larger than the member and employers' contributions to the System. Thus investment income had to be used to cover negative cash flow. If the increasing and additional contributions stipulated by law are not paid in full on an annual basis, the System will continue being rapidly defunded and gross assets will be exhausted. If measures are not taken to significantly increase the contributions, the System will become insolvent in fiscal year 2018. In addition, annual cash flow estimates for the foreseeable future are presently estimated to be insufficient to cover the System's obligations unless other measures are taken.

If the System's assets are exhausted, it would be operating solely on a "pay-as-you-go" basis, which means that it would be unable to pay benefits that exceed the actual employer and employee contributions received (net of administrative and other expenses), unless the Commonwealth provides the funding required to meet the pay-as-you-go retirement benefits. Additionally, as described in note 10, future employers' contributions have been pledged for the payment of debt service, further depletion of the System's assets could result in the inability to repay its bond obligations. Consequently, the System's funding requirements, together with the funding requirements of JRS and the Puerto Rico System of Annuities and Pensions for Teachers, could have a direct negative effect on the Commonwealth's General Fund, since the Commonwealth is the primary sponsor and is obligated to make contributions to fund each of the systems.

The Commonwealth and the other participating employers have been facing a number of fiscal and economic challenges in recent years due, among other factors, to continued budget deficits, a prolonged economic recession, high unemployment, population decline, and high levels of debt and pension obligations. The widening of credit spreads for the Commonwealth's public sector debt, the continued downgrading of the Commonwealth's credit ratings and those of many of its instrumentalities to noninvestment grade categories, and the lowered-than-projected revenues have put further strain on the Commonwealth's liquidity and have affected its access to both the capital markets and private sources of financing, as well as the borrowing cost of any such funding.

If the Commonwealth's financial condition does not improve as a result of fiscal and budgetary measures it is taking, its ability to repay its obligations, including its regular employer contributions to the System and its additional contribution as provided by Act No. 32 of June 25, 2013 (Act No. 32), for the upcoming years, may continue to be adversely affected, and could also affect the payment of benefits and the repayment of the System's bond payable.

To improve the liquidity and solvency of the System, the Commonwealth enacted Act No. 32, as amended by Act No. 244 of 2014, which provides for incremental annual contributions (additional uniform contribution) from the Commonwealth's General Fund, public corporations and municipalities beginning in fiscal year 2014 and up to the fiscal year 2033. The additional annual contribution determined for fiscal 2014 was defined as $120 million and subsequent annual amounts will be determined annually based on actuarial studies to be performed by the System's actuaries as necessary for the System's gross assets to remain above $1 billion. An appropriation for such additional uniform contribution of approximately $98 million was included in the Commonwealth's budget for the fiscal year 2014. However, as a result of the Commonwealth's General Fund revenue shortfall, compared to budget, the Commonwealth made certain adjustments to the fiscal year 2014 budgetary appropriations following the "priority norms" for the disbursement of public funds that apply during any fiscal year in which the resources available to the Commonwealth are insufficient to cover the appropriations approved for such year. These adjustments included the reduction in full of the portion of the Act No. 32 additional uniform contribution by executive Order 29-2014.

For fiscal year 2015 and 2016, the certification of the additional uniform contribution was not available at least 120 days before the commencement of the applicable fiscal year. Act No. 32, as amended, provides that, in this situation, the additional uniform contribution for the fiscal year will be the additional uniform applicable for the preceding year. Thus, the additional uniform contribution determined for fiscal years 2015 and 2016 was $120 million.

Timely payment of the additional uniform contribution is a critical component of the reform in order for the System to be able to make payments as they come due without depleting all of its assets first. However, as a result of continued budget deficits in fiscal years 2014 and 2015, the Commonwealth and other participating employers have been unable to make the additional uniform contribution required in full for these fiscal years (other than $35.4 million paid by municipalities and public corporations for fiscal year 2014 and $22.7 million paid by the Commonwealth and $37.1 million paid by public corporations and municipalities for fiscal year 2015). In February 2016, the System's actuaries recalculated the additional uniform contribution for fiscal year 2017 and subsequent years. Based on certain assumptions (which do not account for any fiscal adjustment that the Commonwealth may undertake to address its fiscal challenges), the projected additional uniform contribution for fiscal year 2017 and subsequent years was approximately $596 million (of which approximately $370 million corresponds to the Commonwealth, to be funded from its General Fund, and the remaining portion corresponds to the participating public corporations and municipalities).

Remediation Plan

To improve the liquidity and solvency of the System, on July 6, 2011, the Commonwealth enacted Act No. 116 increasing the employers' contribution rate from 9.275% to 10.275% of employee compensation for the 2011-2012 fiscal year, an additional 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020.

On April 4, 2013, the Legislature enacted Act No. 3 which amended Act No. 447, Act No. 1 of February 16, 1990 (Act No. 1), and Act No. 305 of September 24, 1999 (Act No. 305 or System 2000). Act No. 3 of 2013 (Act No. 3) reformed the System by, among other measures, reducing benefits, increasing employee contributions, and, in the case of active employees who were entitled to the defined benefits program, replacing most of the defined benefit elements with a defined contribution structure. The reform intended to address the Commonwealth's future cash flow needs and "pay-as-you-go" requirements, while recognizing that the System would become insolvent. As such, the reform was intended to provide enough cash for the System to be able to pay benefits (as amended through the reform) and debt service on the pension obligation bonds, while maintaining projected System gross assets at no less than $1 billion at all times.

In order to achieve this goal, the reform contemplated that the Commonwealth and other participating employers would have to provide additional annual funding above the statutorily prescribed contributions as required by Act No. 32. As a long-term plan, it was recognized that constant monitoring would be required to ensure that the System remained on track to meet the reform's goals. The receipt of the additional uniform contribution of Act No. 32 is critical to the System's ability to make payments as they become due.

Act No. 3 established a contributory hybrid program (the Contributory Hybrid Program) similar to the System 2000 program that will eventually result in all active and retired members participating in a member-funded hybrid program. Act No. 3 froze all retirement benefits accrued through June 30, 2013 under Act No. 447 and Act No. 1 (defined benefit program), and thereafter, all future benefits will accrue under the defined contribution formula used for the System 2000 program participants. Ceasing future defined benefit accruals under Act 447 and Act 1 and converting to a member-funded hybrid plan will result in lower benefit payments as these tiers wind down, and will make all future employer contributions available to pay benefits and bonds payable debt service.

Participants in the defined benefit program who as of June 30, 2013 were entitled to retire and receive a pension, may retire on any later date and will receive the annuity corresponding to their retirement program, as well as the annuity accrued under the Contributory Hybrid Program. Participants who as of June 30, 2013 were not entitled to retire can retire depending on the new age limits defined by the Contributory Hybrid Program and will receive the annuity corresponding to their retirement program, as well as the annuity accrued under the Contributory Hybrid Program.

Participants in the System 2000 program who as of June 30, 2013 had reached the age of 60 may retire on any later date and will receive the annuity corresponding to their retirement program, as well as the annuity accrued under the Contributory Hybrid Program. Participants in the System 2000 program who as of June 30, 2013 had not reached the age of 60 can retire depending on the new age limits defined by the Contributory Hybrid Program and will receive the annuity corresponding to their retirement program, as well as the annuity accrued under the Contributory Hybrid Program.

In addition, Act No. 3 amended the provisions of the different benefit structures under the System including, but not limited to, the following:

- Retirement age – The retirement age for the frozen accrued benefits of Act No. 447 is gradually increased from age 58 to age 61, and from age 60 to age 65 for System 2000 program members, which results in a delay in cash outflow and thus lower cumulative future benefit payments to these members. Reduced early retirement was eliminated for Act No. 1, which also results in a delay in cash outflow. The retirement age for new employees was increased to age 67.
- Member contributions – The prior member contribution rate of 8.275% (varying for some members) is increased to 10% of pay. While this will result in higher hybrid program benefits in the future, it will provide more assets in the near term that can support current benefit payments and bonds payable debt service.
- Mandated annuitization – System 2000 program notional accounts were available as lump sum payments at termination/retirement. With a full cohort of active System 2000 program members completing careers at roughly the same time that bonds payable principal payments begin, lump sum payments would have had a deleterious effect on the System's assets. Act No. 3 hybrid accounts, which include the System 2000 program accounts, are subject to mandatory annuitization, which will benefit the System on a cash flow basis by stretching out payments over time, thus providing the System "catch-up" time. The System has the authority for determining the annuitization factors and for updating the factors in future years.
- Survivor benefits – Act No. 447 and Act No. 1 offered survivor benefits at no cost to the retiree. For future retirees, the defined benefit portion of the Act No. 447 or Act No. 1 frozen annuity and the hybrid program Act No. 3 annuity will be subject to an actuarially determined reduction if the member elects an annuity with a survivor benefit, resulting in lower future cash outflow.
- The occupational death benefit and the one year of salary death benefit were eliminated for Act No. 447 and Act No. 1 members, resulting in lower future cash outflow.
- Disability benefits, other than those provided under Law No. 127, were eliminated, resulting in lower future cash outflow. (A member who becomes disabled may receive their hybrid account balance and their accrued benefit if applicable under Act No. 447 or Act No. 1).
- Special law benefits are reduced for current retirees and eliminated for future retirees. The Christmas bonus payable to current retirees was reduced from $600 to $200. The summer bonus was eliminated. The employers will continue making contributions to the System as if all special law benefits were still in place for current and future Act No. 447 and Act No. 1 retirees, which will result in additional cash that can be used for benefit payments and bonds payable debt service.
- Minimum benefits – The minimum pension payable was increased from $400 to $500 per month for current retirees only.
- Merit Annuity – The "Merit Annuity" available to participants who joined the System prior to April 1, 1990 was eliminated.

Other measures taken to improve the liquidity of the System include, among others, 1) revision of the personal loan policy by limiting personal and cultural loan amounts to $5,000 each, from $15,000 and $10,000, respectively; and 2) the receipt of a special contribution from the Commonwealth that was invested in junior subordinated capital appreciation bonds issued by the Puerto Rico Sales Tax Financing Corporation (the COFINA Bonds) (see note 12).

The successful implementation of these measures cannot be assured, as it is dependent upon future events and circumstances whose outcome cannot be anticipated.

(4) Plan Description

Pension Benefits

The System administers different benefit structures pursuant to Act No. 447, as amended, including a cost-sharing, multi-employer, defined benefit program, a defined contribution program (System 2000 program) and a contributory hybrid program. Benefit provisions vary depending on member's date of hire. Substantially all full-time employees of the Commonwealth and its instrumentalities (73 Commonwealth agencies, 78 municipalities, and 55 public corporations, including the System) are covered by the System. Membership is mandatory for all regular, appointed, and temporary employees of the Commonwealth at the date of employment. Membership is optional for the Governor of the Commonwealth, Commonwealth secretaries, head of public agencies and instrumentalities, among others.

At July 1, 2013, membership of the System consisted of the following:

Retirees and beneficiaries currently receiving benefits	107,848
Current participating employees - defined benefit	62,163
Current participating employees – System 2000	63,508
Disabled members, receiving benefits	16,649
Total membership	250,168

The benefits provided to members of the System are established by Commonwealth law and may be amended only by the Legislature with the Governor's approval. Act No. 3, in conjunction with other recent funding and design changes, provided for a comprehensive reform of the System. This summary details the provisions under Act No. 3.

Certain provisions are different for the three groups of members who entered the System prior to July 1, 2013 as described below:

- Members of Act No. 447 are generally those members hired before April 1, 1990.
- Members of Act No. 1 are generally those members hired on or after April 1, 1990 and on or before December 31, 1999.
- Members of Act No. 305 (or System 2000) are generally those members hired on or after January 1, 2000 and on or before June 30, 2013.

All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the defined benefit program and the System 2000 program, and were rehired on or after July 1, 2013, become members of the Contributory Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous programs became part of the Contributory Hybrid Program on July 1, 2013.

Each member has a non-forfeitable right to the value of his/her account. Members have three options to invest their contributions. Investment income is credited to the member's account semiannually. The Commonwealth does not guarantee benefits at retirement age.

The assets of the defined benefit program, the defined contribution program and the Contributory Hybrid Program are pooled and invested by the System. Future benefit payments will be paid from the same pool of assets.

This summary of plan provisions is intended to describe the essential features of the plan. All eligibility requirements and benefit amounts shall be determined in strict accordance with the plan document itself.

(a) Service Retirements

(1) Eligibility for Act No. 447 Members – Act No. 447 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 447 members could retire upon (1) attainment of age 55 with 25 years of credited service, (2) attainment of age 58 with 10 years of credited service, (3) any age with 30 years of credited service, (4) for Public Officers in High Risk Positions (the Commonwealth Police and Firefighter Corps, the Municipal Police and Firefighter Corps and the Custody Office Corps), attainment of age 50 with 25 years of credited service, and (5), for Mayors of municipalities, attainment of age 50 with 8 years of credited service as a Mayor. In addition, Act No. 447 members who attained 30 years of credited service by December 31, 2013 are eligible to retire at any time.

Act No. 447 members who were not eligible to retire as of June 30, 2013 and did not attain 30 years of credited service by December 31, 2013 are eligible to retire upon attainment of the retirement eligibility age shown in the table below with 10 years of credited service.

Date of birth	Attained age as of June 30, 2013	Retirement eligibility age
July 1, 1957 or later	55 or less	61
July 1, 1956 to June 30, 1957	56	60
Before July 1, 1956	57 and up	59

In addition to the requirements in the table above, Act No. 447 Public Officers in High Risk Positions who were not eligible to retire as of June 30, 2013 and did not attain 30 years of credited service by December 31, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

(2) ***Eligibility for Act No. 1 Members*** – Act No. 1 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 1 members could retire upon (1) attainment of age 55 with 25 years of credited service, (2) attainment of age 65 with 10 years of credited service, (3) for Public Officers in High Risk Positions, any age with 30 years of credited service, and (4) for Mayors, attainment of age 50 with 8 years of credited service as a Mayor.

Act No. 1 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 65 with 10 years of credited service. In addition, Act No. 1 Public Officers in High Risk Positions who were not eligible to retire as of June 30, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

(3) ***Eligibility for System 2000 Members*** – System 2000 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, System 2000 members could retire upon attainment of age 55 for Public Officers in High Risk Positions and attainment of age 60 otherwise.

System 2000 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 55 for Public Officers in High Risk Positions and upon attainment of the retirement eligibility age shown in the table below otherwise.

Date of birth	Attained age as of June 30, 2013	Retirement eligibility age
July 1, 1957 or later	55 or less	65
July 1, 1956 to June 30, 1957	56	64
July 1, 1955 to June 30, 1956	57	63
July 1, 1954 to June 30, 1955	58	62
Before July 1, 1954	59 and up	61

(4) ***Eligibility for Members Hired after June 30, 2013*** – Attainment of age 58 if a Public Officer in a High Risk Position and attainment of age 67 otherwise.

(b) ***Service Retirement Annuity Benefits***

An annuity payable for the lifetime of the member equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement, plus, for Act No. 447 and Act No. 1 members, the accrued benefit determined as of June 30, 2013. If the balance in the hybrid contribution account is $10,000 or less, it shall be paid as a lump sum instead of as an annuity.

(1) ***Accrued Benefit as of June 30, 2013 for Act No. 447 Members*** – The accrued benefit as of June 30, 2013 shall be determined based on the average compensation, as defined, for Act No. 447 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Act No. 447 Mayors, the highest compensation, as defined, as a Mayor is determined as of June 30, 2013.

If the Act No. 447 member had at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting to coordinate with social security (the Coordination Plan), the benefit is re-calculated at the Social Security Retirement Age (SSRA), as defined, as 1.5% of average compensation up to $6,600 multiplied by years of credited service, up to 30 years, plus 65% (75% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600.

If the Act No. 447 member had less than 30 years of credited service as of June 30, 2013, and attains 30 years of credited service by December 31, 2013, the accrued benefit equals 55% of average compensation if the member was under age 55 as of June 30, 2013 or 60% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit is re-calculated at SSRA as 1.5% of average compensation up to $6,600 multiplied by years of credited service, up to 30 years, plus 55% (60% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600. Member contributions received from Act No. 447 members eligible for this transitory benefit during the period beginning July 1, 2013 and ending upon the attainment of 30 years of credited service are considered pre-July 1, 2013 contributions; the contributions to the hybrid contribution account begin after the member attains 30 years of credited service.

If the Act No. 447 member had less than 30 years of credited service as of December 31, 2013, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service up to 20 years, plus 2% of average compensation multiplied by years of credited service in excess of 20 years. Maximum benefit is 75% of average compensation. Except for Commonwealth Police and Commonwealth Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58. For participants selecting the Coordination Plan, the basic benefit is re-calculated at SSRA as 1% of average compensation up to $6,600 multiplied by years of credited service up to 20 years, plus 1.5% of average compensation up to $6,600 multiplied by years of credited service in excess of 20 years, plus 1.5% of average compensation in excess of $6,600 multiplied by years of credited service up to 20 years, plus 2.0% of average compensation in excess of $6,600 multiplied by years of credited service in excess of 20 years. Except for Police and Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58.

For Act No. 447 Mayors with at least 8 years of credited service as a mayor, the accrued benefit will not be less than 5% of highest compensation, as defined, as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

(2) ***Accrued Benefit as of June 30, 2013 for Act No. 1 Members*** – The accrued benefit as of June 30, 2013 shall be determined based on the average compensation for Act No. 1 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Act No. 1 Mayors, the highest compensation as a Mayor is determined as of June 30, 2013.

If the Act No. 1 member is a police officer or firefighter with at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013.

For all other Act No. 1 members, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service. The benefit is actuarially reduced for each year payment commences prior to age 65.

For Act No. 1 Mayors with at least 8 years of credited service as a mayor, the accrued benefit will not be less than 5% of highest compensation as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

(c) *Compulsory Retirement*

All Act No. 447 and Act No. 1 Public Officers in High Risk Positions must retire upon attainment of age 58 and 30 years of credited service. A two year extension may be requested by the member from the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps, or supervising authority as applicable.

(d) *Termination Benefits*

(1) *Lump Sum Withdrawal*

Eligibility: A Member is eligible upon termination of service prior to 5 years of service or if the balance in the hybrid contribution account is $10,000 or less.

Benefit: The benefit equals a lump sum payment of the balance in the hybrid contribution account as of the date of the permanent separation of service.

(2) *Deferred Retirement*

Eligibility: A Member is eligible upon termination of service with 5 or more years of service (10 years of credited service for Act No. 447 and Act No. 1 members) prior to the applicable retirement eligibility, provided the member has not taken a lump sum withdrawal of the accumulated contributions and the hybrid contribution account.

Benefit: An annuity payable for the lifetime of the member commencing at the applicable retirement eligibility age equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement, plus, for Act No. 447 and Act No. 1 members, the accrued benefit determined as of June 30, 2013.

(e) Death Benefits

(1) Pre-Retirement Death Benefit

Eligibility: Any current nonretired member is eligible.

Benefit: A refund of the hybrid contribution account, plus the accumulated contributions for Act No. 447 and Act No. 1 members.

(2) High-Risk Death Benefit under Act No. 127

Eligibility: Police, firefighters, and other employees in specified high-risk positions who die in the line of work due to reasons specified in Act No. 127 of 1958, as amended.

Spouse's Benefit: 50% of the participant's compensation at date of death, payable as an annuity until death or remarriage.

Children's Benefit: 50% of the participant's compensation at date of death, payable as an annuity, and allocated pro-rata among eligible children. The annuity is payable for life for a disabled child, until age 18 for a nondisabled child not pursuing studies, and until age 25 for a nondisabled child who is pursuing studies.

Benefit if No Spouse or Children: The parents of the member shall each receive 50% of the participant's compensation at date of death, payable as an annuity for life.

Post-death Increases: Effective July 1, 1996 and subsequently every three years, the above death benefits are increased by 3% provided that the beneficiary(ies) had been receiving payments for at least three years.

The cost of these benefits is paid by the Commonwealth's General Fund.

(3) Post-Retirement Death Benefit for Members who Retired prior to July 1, 2013

Eligibility: Any retiree or disabled member receiving a monthly benefit who has not elected a reversionary annuity and whose benefits commenced prior to July 1, 2013.

Benefit: The benefit is as follows (Law No. 105, as amended by Law No. 4):

(i) For those married or with dependent children at the time of death, the annual income to a widow, or widower or dependent children is equal to 60% (50% if in the Coordination Plan – 30% prior to January 1, 2004) of the retirement benefit payable for life for a surviving spouse and/or disabled children and payable until age 18 (age 25 if pursuing

studies) for nondisabled children. If in the Coordination Plan, the benefit to the surviving spouse does not begin until the spouse's attainment of age 60 and the surviving spouse must have been married to the member for at least 10 years to be eligible for this benefit. The increase in the percentage from 30% to 50% if in the Coordination Plan is paid by the General Fund for former government employees or by the public enterprise or municipality for their former employees.

(ii) The benefit, when there is no relation as stated above, is equal to the remaining balance of accumulated contributions at the time of retirement after the deduction of lifetime annual income paid and is payable to a beneficiary or to the member's estate. In no case shall the benefit be less than $1,000. Either the Commonwealth's General Fund for former government employees or the public enterprise or municipality for their former employees pays the difference, up to $250, between (1) the accumulated contributions less the lifetime annual income paid and (2) $1,000. The System pays for the rest.

(4) Post-Retirement Death Benefit for Members who Retired after June 30, 2013

Eligibility: Any retiree or disabled member who began receiving a monthly benefit after June 30, 2013.

Benefit: If the member elected at the time of retirement to transfer a portion of the annuity to a beneficiary by selecting an actuarially equivalent optional form of payment, the applicable survivor benefit.

For all members, the excess, if any, of the hybrid contribution account, plus the accumulated contributions for Act No. 447 and Act No. 1 members, at the time of retirement over the total annuity payments paid to the member and any beneficiary per the terms of the optional form of payment shall be payable to a beneficiary or the member's estate.

(5) Beneficiaries receiving occupational death benefits as of June 30, 2013 continue to be eligible to receive such benefits.

(f) Disability Benefits

(1) Disability

Eligibility: All members are eligible upon the occurrence of disability.

Benefit: The balance of the hybrid contribution account payable as lump sum distribution, an immediate annuity or a deferred annuity at the election of the participant. Act No. 447 and Act No. 1 members remain eligible to receive the accrued benefit as of June 30, 2013 commencing at the applicable retirement eligibility age.

(2) High Risk Disability under Act No. 127

Eligibility: Police, firefighters, and other employees in specified high-risk positions who are disabled in the line of work due to reasons specified in Act No. 127 of 1958 (as amended).

Benefit: 80% (100% for Act No. 447 members) of compensation as of date of disability, payable as an annuity. If the member dies while still disabled, this annuity benefit continues to his beneficiaries. Beneficiaries include the surviving spouse and/or disabled children (for life), nondisabled children until age 18 (age 25 if pursuing studies), and the parents if no other beneficiaries. Effective July 1, 1996 and subsequently every three years, the disability benefit is increased by 3% provided that the member (or beneficiary) had been receiving payments for at least three years (Act No. 127 of 1958, as amended). The cost of these benefits is paid by the Commonwealth's General Fund.

(3) Members who qualified for occupational or nonoccupational disability benefits as of June 30, 2013 continue to be eligible to receive such benefits.

(g) Special Benefits

(1) Minimum Benefits

(i) Past Ad hoc Increases

The Legislature, from time to time, increases pensions for certain retirees as described in Act No. 124 approved on June 8, 1973 and Act No. 23 approved on September 23, 1983. The benefits are paid 50% by the Commonwealth's General Fund and 50% by the System.

(ii) Minimum Benefit for Members who Retired before July 1, 2013 (Act No. 156 of 2003, Act No. 35 of 2007, and Act No. 3)

The minimum monthly lifetime income for members who retired or become disabled before July 1, 2013 is $500 per month effective July 1, 2013 ($400 per month effective July 1, 2007 and $300 per month up to June 30, 2007). The increase in the minimum monthly benefit from $200 per month to $300 per month is paid by the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees. The increase in the minimum monthly benefit from $300 per month to $400 per month is to be paid by the System for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees.

(iii) Coordination Plan Minimum Benefit

A minimum monthly benefit is payable upon attainment of SSRA such that the benefit, when added to the Social Security Benefit, is not less than the benefit payable prior to SSRA.

(2) Cost-of-Living Adjustments (COLA) to Pension Benefits

The Legislature, from time to time, increases pensions by 3% for retired and disabled members. Beneficiaries are not entitled to COLAs granted after the retiree's death. The first increase was

granted by Act No. 10 of 1992. Subsequent 3% increases have been granted every third year since 1992, with the latest 3% increase established on April 24, 2007 and effective July 1, 2007 (retroactive to January 1, 2007) for retired and disabled members that were receiving a monthly benefit on or before January 1, 2004. In addition, effective July 1, 2008, any retired or disabled member that was receiving a monthly annuity on or before January 1, 2004 less than $1,250 per month received an increase of up to 3% without exceeding the limit of $1,250 per month. The COLAs granted in 1992 to all retirees and in 1998 to retirees who are former government or municipal employees shall be paid by the System. All other COLAs granted in 1995 and later shall be paid by the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees.

(3) Special "Bonus" Benefits

(i) Christmas Bonus (Act No. 144, as Amended by Act No. 3)

An annual bonus of $200 for each retiree, beneficiary, and disabled member paid in December provided the member retired prior to July 1, 2013. This benefit is paid from the supplemental contributions received from the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees.

(ii) Medication Bonus (Act No. 155, as Amended by Act No. 3)

An annual bonus of $100 for each retiree, beneficiary, and disabled member to cover health costs paid in July provided the member retired prior to July 1, 2013. Evidence of coverage is not required. The amount is prorated if there are multiple beneficiaries. This benefit is paid from the supplemental contributions received from the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees.

(h) Contributions

(1) Member Contributions

Effective July 1, 2013, contributions by members are 10% of compensation. However, for Act No. 447 members who selected the Coordination Plan, the member contributions are 7% of compensation up to $6,600 plus 10% of compensation in excess of $6,600 during the 2013-2014 fiscal year and 8.5% of compensation up to $6,600 plus 10% of compensation in excess of $6,600 during the 2014-2015 fiscal year. Members may voluntarily make additional contributions to their hybrid contribution account.

Prior to July 1, 2013, contributions by Act No. 447 members selecting the Coordination Plan were 5.775% of compensation up to $6,600 plus 8.275% of compensation in excess of $6,600.

Contributions by all other members were 8.275% of compensation. System 2000 members may also have made voluntary contributions of up to 1.725% of compensation prior to July 1, 2013.

(2) Employer Contributions (Article 2-116, as Amended by Law No. 116 of 2010 and Act No. 3)

Prior to July 1, 2011, employer contributions were 9.275% of compensation. Effective July 1, 2011, employer contributions are 10.275% of compensation. For the next four fiscal years effective July 1, employer contributions will increase annually by 1% of compensation. For the five fiscal years thereafter, employer contributions will increase annually by 1.25% of compensation, reaching an employer contribution rate of 20.525% of compensation effective July 1, 2020.

(3) Supplemental Contributions from the Commonwealth's General Fund, Certain Public Corporations, and Municipalities (Act No. 3)

Effective July 1, 2013, the System will receive a supplemental contribution of $2,000 each fiscal year for each pensioner (including beneficiaries receiving survivor benefits) who was previously benefitting as an Act No. 447 or Act No. 1 member while an active employee. This supplemental contribution will be paid by the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees.

(4) Additional Uniform Contribution (Act No. 32, as Amended)

The additional uniform contribution will be certified by the external actuary of the System each fiscal year from 2014-2015 through 2032-2033 as necessary to avoid having the projected gross assets of the System, during any subsequent fiscal year, to fall below $1 billion. The additional uniform contribution is to be paid by the Commonwealth's General Fund, public corporations with own treasuries, and municipalities. The additional uniform contribution determined for fiscal years 2014, 2015 and 2016 was $120 million. The additional uniform contribution determined for fiscal year 2016-2017 is $596 million, payable at the end of the fiscal year.

(i) Early Retirement Programs

The Puerto Rico Environmental Quality Board (EQB) implemented an early retirement program for its employees under the Law 224 Act No. 7 dated August 9, 2008. EQB has already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the System in four installments on each July 31 starting in 2009 through 2012. The EQB was at default on the retirement plan payment, so they requested a new payment plan. The ERS Board of Trustees approved a Payment Plan for the debt balance due of the Retirement program for 24 months starting in March 2014.

On July 2, 2010, the Commonwealth enacted Act No. 70 establishing a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined. Act No. 70 of 2010 (Act No. 70) also established that early retirement benefits

will be provided to eligible employees that have completed between 15 to 29 years of creditable services and will consist of monthly benefits ranging from 37.5% to 50% of each employees' monthly salary. Benefits under this program will be paid by the General Fund of the Commonwealth (the General Fund) and by the public corporations, covering their respective employees until the plan member reaches the later of age 55 for members under Act No. 447 or age 65 for members under Act No. 1, or the date the plan member would have completed 30 years of service had the member continued employment. In addition, the public corporations will also be required to continue making the required employee and employer contributions to the System. The General Fund will be required to continue making its required employer contributions. The System will be responsible for benefit payments afterwards.

The contribution requirement to the System is established by law and is not actuarially determined. The special benefits contributions of approximately $229 million in 2014 mainly represent contributions from the Commonwealth's General Fund, public corporations and municipalities for the special benefits identified above granted by special laws. The funding of the special benefits is provided to the System through legislative appropriations each July 1 by the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees, and by certain public corporations with own treasuries and municipalities for their former employees. The legislative appropriations are considered estimates of the payments to be made by the System for the special benefits. Deficiencies in legislative appropriations are covered by the System's own funds until recovered through future legislative appropriations. Any surplus of legislative appropriations collected over special benefits paid is combined with the assets held in trust for the payment of other pension benefits.

(j) Other Postemployment Benefits (OPEB) – Healthcare Benefits

ERS MIPC is a cost-sharing, multi-employer defined benefit other postemployment benefit plan sponsored by the Commonwealth. ERS MIPC covers a payment of up to $100 per month to the eligible medical insurance plan selected by the member provided the member retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3). Substantially all fulltime employees of the Commonwealth's primary government, and certain municipalities of Puerto Rico and certain component units of the Commonwealth not having their own postemployment benefit plan, were covered by the OPEB.

Commonwealth employees became members upon their date of employment. Plan members were eligible for benefits upon reaching the pension benefits retirement ages.

At July 1, 2013, the membership, as adjusted by changes in participants established by Act No. 3, consisted of the following:

Membership:	
Retired members	94,395
Disabled members	16,649
Total membership	111,044

The contribution requirement of ERS MIPC is established by Act No. 95 approved on June 29, 1963. This OPEB plan is financed by the Commonwealth on a pay-as-you-go basis. There is no contribution requirement from the plan member during active employment. Retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution. As a result, these OPEB are 100% unfunded. During the year ended June 30, 2014, OPEB contributions amounted to $102 million.

The funding of the OPEB benefits is provided to the System through legislative appropriations each July 1 by the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees, and by certain public corporations with own treasuries and municipalities for their former employees. The legislative appropriations are considered estimates of the payments to be made by the System for the healthcare benefits throughout the year.

(5) Net Pension Liability

The components of the net pension liability as of June 30, 2014 were as follows (dollars in thousands):

Total pension liability	$	30,219,517
Plan's fiduciary net position		80,666
Net pension liability	$	30,138,851
Plan's fiduciary net position as a percentage of the total pension liability		0.27%

(a) Actuarial Methods and Assumptions

The census data collection date has changed from end-of-year to beginning-of-year. For this switchover year, the June 30, 2013 census data used in the prior valuation is also used as the July 1, 2013 census data for the current valuation. The liability results as of June 30, 2014 are based on projecting the System obligations determined as of the census data collection date of July 1, 2013 for one year, using roll-forward methods and assuming no liability gains or losses.

The actuarial valuation used the following actuarial assumptions:

Inflation	2.50%
Municipal bond index	4.29%, as per Bond Buyer General Obligation 20-Bond Municipal Bond Index
Projected salary increases	3.00% per year. No compensation increases are assumed until July 1, 2017 as a result of Act No. 66 and the current general economy.
Mortality	Pre-retirement Mortality: For general employees not covered under Act No. 127, RP-2000 Employee Mortality Rates for males and females projected on a generational basis using Scale AA. For members covered under Act No. 127, RP-2000 Employee Mortality Rates with blue collar adjustments for males and females, projected on a generational basis using Scale AA. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127.
	Post-retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females. The rates are projected on a generational basis starting in 1994 using Scale AA. As a generational table, it reflects mortality improvements both before and after the measurement date.
	Post-retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2007 to 2012 equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. No provision was made for future mortality improvement for disabled retirees.

Most other demographic assumptions used in the July 1, 2013 valuation were based on the results of an actuarial experience study using data as of June 30, 2003, June 30, 2005 and June 30, 2007.

(b) Long-term Expected Rate of Return

The long-term expected rate of return on pension benefits investments was determined in accordance with the asset allocation of the portfolio that was adopted by the Board during December 2013 and the actuary's capital market assumptions as of June 30, 2014. The long-term expected rate of return on pension benefits investments of 6.75% as of June 30, 2014 was slightly higher than the debt service of the senior pension funding bonds payable which range from 5.85% to 6.55%.

The pension plan's policy in regard to allocation of invested assets is established and may be amended by the Board. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a positive impact on the System's financial condition for the benefits provided through

the pension programs. The following was the Board's adopted asset allocation policy as of June 30, 2014:

Asset class	Target allocation	Long-term expected rate of return
Domestic equity	25%	6.8%
International equity	10	7.6
Fixed income	64	3.9
Cash	1	2.9
Total	100%	

The long-term expected rate of return on pension benefits investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

(c) Discount Rate

The asset basis for the date of depletion projection is the System's fiduciary net position (the gross assets plus deferred outflows of resources less the gross liabilities, including the senior pension funding bonds payable, plus deferred inflows of resources). On this basis, the System's fiduciary net position was expected to be exhausted in the fiscal year 2015.

The System's fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the tax free municipal bond index (Bond Buyer General Obligation 20-Bond Municipal Bond Index) was applied to all periods of projected benefits payments to determine the total pension liability. The discount rate was 4.29% as of June 30, 2014.

The date of depletion projection of the actuarial report does not include any amounts from the additional uniform contribution required by Act No. 32 because of actual fiscal and budgetary financial difficulties, continued budget deficits and liquidity risks of the Commonwealth and the municipalities, and in the event that their financial condition do not improve in the near term.

The June 30, 2014, actuarial valuation reflects an increase of $1,198 million in the total pension liability as a result of the changes in assumptions related to the change in the discount rate as required by GASB Statement No. 67 and an increase of $54 million in the total pension liability as a result differences between expected and actual experience.

(d) Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability calculated using the discount rate of 4.29%, as well as what it would be if it were calculated using a discount rate of 1 percentage-point lower (3.29%) or 1 percentage-point higher (5.29%) than the current rate (dollars in thousands):

	1% Decrease (3.29%)	Current discount rate (4.29%)	1% Increase (5.29%)
Net pension liability	$ 34,191,176	30,138,851	26,783,118

(6) Cash and Cash Equivalents, Investments and Securities Lending Transactions

Cash and Cash Equivalents

Cash and cash equivalents as of June 30, 2014 consisted of the following (in thousands):

	Carrying amount	Depository bank balance	Amount uninsured and uncollateralized
Deposits with GDB	$ 71,508	114,657	114,657
Deposits with GDB held by the Puerto Rico Department of Treasury	3,470	72,832	72,832
Deposits with Puerto Rico commercial banks	12,529	12,529	—
Money market funds	177,535	N/A	N/A
U.S. Treasury bill	4,450	N/A	—
Total	$ 269,492	200,018	187,489

N/A= Not applicable.

Custodial credit risk for deposits is the risk that, in an event of the failure of a depository financial institution, the System may not be able to recover deposits or collateral securities that are in the possession of an outside party. The Commonwealth requires that public funds deposited in Puerto Rico commercial banks be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth. Deposits with GDB and with non Puerto Rico commercial banks and money market funds are uninsured and uncollateralized, as these entities are exempt from compliance with the collateralization requirement

Investments

For the year ended June 30, 2014, the annual money-weighted rate of return on investments, net of investment expenses, was 11.2%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

The System's investments are exposed to custodial credit risk, credit risk, concentration of credit risk, foreign currency risk, and interest rate risk. Following is a description of these risks as of June 30, 2014:

(a) Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the System may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. At June 30, 2014, securities investments were registered in the name of the System and were held in the possession of the System's custodian banks, except for securities lent. Securities lent are not exposed to custodial credit risk. Cash collateral received from securities lending transactions invested in short-term investments is exposed to custodial credit risk.

(b) Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. All fixed-income securities at the time of purchase must be of investment grade quality. All issuances shall be rated investment grade by at least two of the nationally recognized rating agencies. The portfolio is expected to maintain a minimum weighted average credit quality of either "A–" or better.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

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June 30, 2014

The credit quality ratings of bonds and notes and nonexchange commingled fixed income trust fund as of June 30, 2014, are as follows (in thousands):

	RATING (1)						
Investment type	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	Not rated	Total
Bonds and notes:							
U.S. government agencies obligations:							
Federal Home Loan Bank (FHLB) $	—	14,943	—	—	—	—	14,943
Federal National Mortgage Association (FNMA)	—	8,319	—	—	—	—	8,319
Federal Home Loan Mortgage Corporation (FHLMC)	—	13,242	—	—	—	—	13,242
Federal Farm Credit Banks (FFCB)	—	5,794	—	—	—	—	5,794
Mortgage and asset-backed securities:							
FNMA	—	4,942	—	—	—	—	4,942
FHLMC	—	2,496	—	—	—	—	2,496
Collateralized mortgage obligations (CMO) – others	—	—	—	—	—	286	286
Commercial mortgages	15,547	—	—	—	—	—	15,547
Asset-backed securities	—	69	—	—	—	—	69
U.S. corporate bonds and notes	12,955	89,411	406,551	308,134	25,969	11,838	854,858
Non U.S. corporate bonds	—	22,607	66,915	61,478	3,641	12,465	167,106
U.S. municipal bonds	2,769	4,132	3,256	—	—	—	10,157
Commonwealth bonds	—	—	—	—	995	—	995
COFINA bonds	—	—	138,123	—	—	—	138,123
Total bonds and notes	31,271	165,955	614,845	369,612	30,605	24,589	1,236,877
Nonexchange commingled fixed income trust fund – SSgA Intermediate fund	8,071	8,893	25,782	26,300	—	—	69,046
Total $	39,342	174,848	640,627	395,912	30,605	24,589	1,305,923

(1) Rating obtained from Standard & Poor's or equivalent rating by Moody's Investor Service or Fitch Ratings.

Approximately $100 million of the total System investments consist of U.S. government and Government National Mortgage Association (GNMA) mortgage-backed securities, which carry no risk, therefore, not included within the above table.

The System invests in a U.S. fixed income fund which consists of shares of the State Street Global Advisor (SSgA) Intermediate U.S. Credit Index Non-Lending Fund (SSgA Intermediate Fund). The investment objective of the SSgA Intermediate Fund is to replicate the Barclays U.S. Intermediate Credit Bond Index by investing exclusively in fixed income securities. Shares of the SSgA Intermediate Fund can be redeemed on a daily basis at NAV and have no redemption restrictions.

(c) Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the System's investment in a single issuer. As of June 30, 2014, there are no investments in any issuer that represent 5% or more of the System's total investments, except for its investment in COFINA Bonds further described in note 12.

(d) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the System manages its exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for benefit payments, thereby avoiding the need to sell securities on the open market prior to maturity. Investments in equity securities are not subject to the maximum maturity policy since they do not carry a maturity date. The System is expected to achieve capital preservation and income generation by investing in a diversified portfolio of marketable, investment grade intermediate credit and core fixed-income securities.

The contractual maturity of investments as of June 30, 2014, is summarized below (in thousands). Expected maturities will differ from contractual maturities, because counterparties may have the right to call or prepay obligations with or without call or prepayment penalties.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO
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Notes to Basic Financial Statements

June 30, 2014

		Maturity (in years)				
Investment type		Within one year	After one to five years	After five to ten years	After ten years	Total
Bonds and notes:						
U.S. government securities:						
U.S. Treasury notes	$	—	25,122	24,612	—	49,734
U.S. Treasury note strips		—	—	40,852	—	40,852
U.S. Treasury bonds		—	—	—	417	417
U.S. government sponsored agencies notes:						
FHLB		6,214	2,256	6,473	—	14,943
FNMA		—	4,942	3,377	—	8,319
FHLMC		—	9,756	3,486	—	13,242
FFCB		—	4,153	1,641	—	5,794
Mortgage and asset-backed securities:						
GNMA		—	—	—	9,412	9,412
FNMA		616	—	488	3,838	4,942
FHLMC		—	—	—	2,496	2,496
Collateralized mortgage obligations (CMO) – others		—	—	—	286	286
Commercial mortgages		—	—	—	15,547	15,547
Asset-backed securities		—	69	—	—	69
U.S. corporate bonds and notes		77,228	425,891	322,278	29,461	854,858
Non U.S. corporate bonds		19,411	69,220	76,356	2,119	167,106
U.S. municipal bonds		—	3,403	4,593	2,161	10,157
Commonwealth bonds		995	—	—	—	995
COFINA bonds		—	—	—	138,123	138,123
Total bonds and notes		104,464	544,812	484,156	203,860	1,337,292
Nonexchange commingled fixed income trust fund – SSgA Intermediate Fund (1):						
U.S.		—	45,101	—	—	45,101
Non-U.S.		—	23,945	—	—	23,945
Total bonds and notes and nonexchange commingled fixed income trust fund	$	104,464	613,858	484,156	203,860	1,406,338
Stocks, nonexchange commingled equity trust funds and investments in limited partnerships:						
Non-U.S. corporate stock						$ 102
Nonexchange commingled equity trust funds:						
U.S. – SSgA Russell 3000 Fund						513,545
Non-U.S. – SSgA MSCI ACWI Ex USA Fund						167,891
Investments in limited partnerships						54,146
Total stocks, nonexchange commingled equity trust funds and investments in limited partnerships						735,684
Total investments						$ 2,142,022

(1) Nonexchange commingled fixed income trust fund was classified based on effective duration.

(Continued)

(e) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. As of June 30, 2014, the SSgA MSCI ACWI Ex USA Fund is subject to foreign currency risk.

As of June 30, 2014, the composition of the underlying investments in the SSgA MSCI ACWI Ex USA Fund by country was as follows:

Country	SSgA MSCI ACWI EX USA Fund
United Kingdom	15%
Japan	14
Canada	8
France	7
Germany	7
Switzerland	6
Australia	6
China	4
Korea	3
Taiwan	3
Spain	3
Brazil	2
Hong Kong	2
Netherlands	2
South Africa	2
Sweden	2
Italy	2
Denmark	1
India	1
Mexico	1
Russia	1
Singapore	1
Others	7
Total	100%

Nonexchange Commingled Trust Funds

As of June 30, 2014, the System owned shares in the SSgA Russell 3000 Index Non-Lending Fund (SSgA Russell 3000 Fund), the SSgA MSCI ACWI Ex USA Non-Lending Fund (SSgA MSCI ACWI Ex USA Fund), and the SSgA Intermediate Fund as follows (in thousands):

Fund name	Shares		Value
SSgA Russell 3000 Fund	25,614	$	513,545
SSgA MSCI ACWI Ex USA Fund	8,764		167,891
SSgA Intermediate Fund	2,409		69,046
Total nonexchange commingled trust funds		$	750,482

The investment objective of the Russell 3000 Fund is to approximate as closely as practicable, before expenses, the performance of the Russell 3000 Index over the long term. Shares can be redeemed on a daily basis at NAV and have no redemption restrictions.

The investment objective of the SSgA MSCI ACWI Ex USA Fund is to approximate as closely as practicable, before expenses, the performance of the MSCI ACWI ex USA Index over the long term. Shares can be redeemed semi-monthly at NAV and have no redemption restrictions.

As of June 30, 2014, the investments underlying the SSgA Russell 3000 Fund, SSgA MSCI ACWI Ex USA Fund, and the SSgA Intermediate Fund had the following sector allocations:

Sector	SSgA Russell 3000 Fund	SSgA MSCI ACWI Ex USA Fund
Information technology	18%	7%
Financials	17	26
Healthcare	13	8
Consumer discretionary	13	11
Industrials	12	11
Energy	10	10
Consumer staples	8	10
Materials	4	8
Utilities	3	4
Telecommunication services	2	5
	100%	100%

	SSgA Intermediate Fund
Corporate – Industrial	45%
Corporate – Finance	30
Non Corporates	21
Corporate – Utility	4
Total	100%

Investments in Limited Partnerships

The fair value of investments in limited partnerships at June 30, 2014, amounted to approximately $54 million and is presented as private equity investments in the basic Statement of Fiduciary Net Position. The allocations of net gains and losses to limited partners are based on certain percentages, as established in the limited partnership agreements. Investments in limited partnerships are not rated by a nationally recognized statistical rating organization.

In accordance with the partnership agreements, the System's investments can only be redeemed upon distribution from funds managers; usually in the form of a sale of its holdings or dividends distributed. As of June 30, 2014, the System does not intend to sell its investments in limited partnerships for an amount different to that presented in the financial statements.

As of June 30, 2014, the date of commitment, total commitment, 2014 contributions, contributions to date at cost, and estimated fair value of investments in limited partnerships are as follows (in thousands):

	Date of commitment	Total commitment	2014 Contributions	Contributions to date at cost	Estimated fair value
Grupo Guayacán, Inc.:					
Guayacán Fund of Funds, LP	September 1996	$ 25,000	—	23,820	52
Guayacán Fund of Funds II, LP	August 1999	25,000	—	23,681	2,907
Advent-Morro Equity Partner, Inc.:					
Guayacán Private Equity Fund, LP	January 1997	5,000	—	4,645	3,516
Guayacán Private Equity Fund II, LP	April 2007	25,000	892	19,922	20,343
Venture Capital Fund, Inc.	November 1995	800	—	800	875
GF Capital Management and Advisors, LLC – GF Capital Private Equity Fund LP	December 2006	25,000	216	25,792	22,830
Chase Capital Partners Private: Equity Fund of Funds Corporate Investors II, LTD	July 2000	20,000	39	18,994	3,623
Martineau Bay Resort, s. en c. (s.e.)	July 1998	1,796	—	1,796	—
Total		$ 127,596	1,147	119,450	54,146

Securities Lending Transactions

The System participates in a securities lending program, whereby securities are transferred to an independent broker or dealer in exchange for collateral in the form of cash, government securities, and/or irrevocable bank letters of credit with a simultaneous agreement to return the collateral for the same securities in the future. Collateral is marked to market daily and the agent places a request for additional collateral from brokers, if needed. The custodian bank is the agent for the securities lending program.

At the end of the year, there was no credit risk exposure to borrowers because the amounts the System owes the borrowers (the collateral) exceeded the amounts the borrowers owe the System (the securities lent). At June 30, 2014, the collateral received represented 102% of the fair value of the total securities lent.

The securities on loan for which collateral was received as of June 30, 2014, consisted of the following (in thousands):

Description		Fair value of underlying securities
U.S. government securities:		
U.S. Treasury bill	$	2,000
U.S. Treasury notes		19,921
U.S. Treasury note strips		12,492
U.S. government sponsored agencies notes:		
FNMA		1,474
FHLMC		4,134
U.S. corporate bonds and notes		83,662
Total	$	123,683

The underlying collateral for these securities had a fair value of approximately $126.6 million as of June 30, 2014. The collateral received was invested in a money market fund sponsored by the custodian bank. As of June 30, 2014, the short-term investment fund consisted of securities purchased under agreements to resell.

Under the terms of the securities lending agreement, the System is fully indemnified against failure of the borrowers to return the securities lent (to the extent the collateral is inadequate to replace the securities lent) or failure to pay the System for income distributions by the securities' issuers while the securities are on loan. In addition, the System is indemnified against loss should the lending agent fail to demand adequate and appropriate collateral on a timely basis.

(7) Accounts Receivable from Employers

As of June 30, 2014, accounts receivable from employers consisted of the following (in thousands):

Early retirement programs	$	3,790
Special laws		104,572
Employer and employee contributions		154,295
Interest on late payments		15,994
Total accounts receivable from employers		278,651
Less allowance for adjustments and losses in realization		(82,848)
Total accounts receivable from employers- net	$	195,803

According to Act No. 447, each employer must pay, on a monthly basis, the amounts corresponding to contributions and loan repayments, on or before the fifteenth day of the following month. After that date, interest is charged as established by the System.

As more fully described in note 2, the Commonwealth and many of its instrumentalities, which are the employers as it relates to the System, have been facing significant fiscal and economic challenges. Further, in recent months, the rating downgrade and widening of credit spreads for the Commonwealth's public sector and public corporations' debt has put further strain on liquidity and sources of funding of the employers. Consequently, most of the receivables from employers are delinquent past established payment dates and/or installment plan due dates. In other instances, amounts past due have continued to be renegotiated to later dates.

As of June 30, 2014, the System recorded an allowance of $82.8 million for adjustments and losses in realization of the additional uniform contribution due from the Commonwealth because, as explained in note 2, its collectability is uncertain at this moment.

Although certain measures have been taken to improve the collection of such receivables, the timing of collections from employers affects the liquidity needs of the System. Management is of the opinion that, except for the additional uniform contribution of the Commonwealth of $82.8 million, other amounts due from employers are collectible; however this situation could ultimately affect the payment of benefits to members or repayment of the System's bonds payable, should any such amounts become uncollectible in the future.

(8) Member Loans and Interest Receivable

Loans receivable from plan members are guaranteed by the contributions of plan members and by other sources, including mortgage deeds and any unrestricted amount remaining in the escrow funds. In addition, collections on loans receivable are received through payroll withholdings. For the year ended June 30, 2014 the maximum amount of loans to plan members for mortgage loans was $100,000 and $5,000 for personal and cultural trip loans. During the years ended June 30, 2014 and 2013, personal loans with principal balances amounting to approximately $100 million and $88 million, respectively, were sold to two financial

institutions. As per servicing agreements, the System is in charge of the servicing, administration and collection of the loans and outstanding principal balances at and after closing date for a servicing fee of 2%.

The allowance for adjustments and losses in realization is considered a general allowance for all categories of loans and interest receivable, except mortgage loans, and also a specific allowance for the special collection project loans balances.

As of June 30, 2014, the composition of loans and interest receivable from plan members is summarized as follows (in thousands):

Loans receivable:		
Personal	$	374,505
Mortgage		164,416
Cultural trips		44,792
Total loans to plan members		583,713
Accrued interest receivable		40,036
Less allowance for adjustments and losses in realization		(4,370)
Total loans and interest receivable from plan members – net	$	619,379

(9) Other Assets

As of June 30, 2014, other assets consist of (in thousands):

Executed land	$	4,699
Repossessed and foreclosed properties		996
Total	$	5,695

Repossessed and foreclosed properties consist mainly of properties acquired through foreclosure proceedings related to delinquent mortgage loans. Foreclosed properties are valued at the outstanding principal balance of the related mortgage loan upon foreclosure. These properties will be sold under a bidding process intended to recover the outstanding principal balance of the related mortgage loan. A gain or loss is recognized at the time of sale.

Differences resulting from the recognition of losses at the point of sale rather than upon foreclosure, as required by GAAP in the United States of America, are not material. Management believes that the carrying value of these properties approximates fair value.

(10) Bonds Payable

Senior Pension Funding Bonds – On February 27, 2007, the System's administration and GDB, acting as the System's fiscal agent (the Fiscal Agent), presented to the Board of Trustees, a financial transaction for the issuance of pension funding bonds in order to reduce the System's unfunded actuarial accrued liability. The

(Continued)

Bonds are limited, nonrecourse obligations of the System, payable solely from and secured solely by a pledge of employer contributions made after the date of issuance of the first series of Bonds, and from funds held on deposit with the Bank of New York (the Fiscal Agent). The Bonds are not payable from contributions made to the System by participating employees, or from the assets acquired with the proceeds of the Bonds, or from employer contributions released by the Fiscal Agent to the System after funding of required reserves, or from any other assets of the System. The System invested the proceeds of the Bonds and used these investments and the earnings thereon to provide pension benefits to its beneficiaries.

On January 31, 2008, the System issued the first series of Bonds, which consisted of approximately \$1,589 million aggregate principal amount of Senior Pension Funding Bonds, Series A (the Series A Bonds). On June 2, 2008, the System issued the second of such series of Bonds, which consisted of approximately \$1,059 million aggregate principal amount of Senior Pension Funding Bonds, Series B (the Series B Bonds). Finally, on June 30, 2008, the System issued the third and final of such series of Bonds, which consisted of approximately \$300 million aggregate principal amount of Senior Pension Funding Bonds, Series C (the Series C Bonds).

The following is a summary of changes in the bonds payable principle balance (in thousands):

	Maturity	Balance at June 30, 2013	Accretion	Balance at June 30, 2014
5.85% to 6.45% Term and Capital Appreciation Bonds Series A	2023-2058	$ 1,606,462	3,965	1,610,427
6.25% to 6.55% Term and Capital Appreciation Bonds Series B	2028-2058	1,150,468	22,019	1,172,487
6.15% to 6.50% Term and Capital Appreciation Bonds Series C	2028-2043	301,036	199	301,235
Bond discounts		(6,777)	215	(6,562)
Total		$ 3,051,189	26,398	3,077,587

As of June 30, 2014, the outstanding principal balance of the Bonds is as follows (in thousands):

Description		
Series A Bonds:		
Capital Appreciation Bonds, maturing in 2028, bearing interest at 6.20%	$	66,657
Term Bonds, maturing in 2023, bearing interest at 5.85%		200,000
Term Bonds, maturing from 2031 through 2038, bearing interest at 6.15%		679,000
Term Bonds, maturing from 2039 through 2042, bearing interest at 6.20%		332,770
Term Bonds, maturing from 2055 through 2058, bearing interest at 6.45%		332,000
Total Series A Bonds outstanding		1,610,427
Series B Bonds:		
Capital Appreciation Bonds, maturing from 2028 through 2030, bearing interest at 6.40%		207,034
Capital Appreciation Bonds, maturing from 2031 through 2034, bearing interest at 6.45%		149,353
Term Bonds, maturing in 2031, bearing interest at 6.25%		117,100
Term Bonds, maturing from 2036 through 2039, bearing interest at 6.30%		270,000
Term Bonds, maturing from 2055 through 2058, bearing interest at 6.55%		429,000
Total Series B Bonds outstanding		1,172,487
Series C Bonds:		
Capital Appreciation Bonds, maturing in 2030, bearing interest at 6.50%		3,235
Term Bonds, maturing in 2028, bearing interest at 6.15%		110,000
Term Bonds, maturing in 2038, bearing interest at 6.25%		45,000
Term Bonds, maturing in 2043, bearing interest at 6.30%		143,000
Total Series C Bonds outstanding		301,235
Total bonds outstanding		3,084,149
Less bonds discount		(6,562)
Bonds payable – net	$	3,077,587

Series A Bonds – The aggregate principal amount of the Series A Bonds issued amounted to approximately $1,589 million of which $1,544 million were issued as term bonds (the Series A Term Bonds) and $45 million were issued as capital appreciation bonds (the Series A Capital Appreciation Bonds). Interest in the Series A Term Bonds are payable monthly on the first day of each month. Interest on the Series A Capital Appreciation Bonds are not payable on a current basis, but are added to the principal of the Capital Appreciation Bonds on each January 1 and July 1 (Compounding Dates), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360 day year consisting of twelve 30 day months.

The Series A Bonds are subject to redemption at the option of the System from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of

Series A Capital Appreciation Bonds, the accreted amount) of the Series A Bonds, plus accrued interest to the redemption date, and without premium.

In addition, the following Series A Term Bonds are subject to mandatory redemption in part commencing on July 1, 2021 to the extent of the sinking fund requirement for said bonds set forth below at a redemption price equal to 100% of the principal amount thereof plus accrued interest as follows (in thousands):

Redemption period	Subject bonds		Amount
July 1, 2021	Term bonds (final maturity July 1, 2023)	$	50,000
July 1, 2022	Term bonds (final maturity July 1, 2023)		70,000
July 1, 2023	Term bonds (final maturity July 1, 2023)		80,000
	Subtotal		200,000
July 1, 2034	Term bonds (final maturity July 1, 2038)		133,500
July 1, 2035	Term bonds (final maturity July 1, 2038)		133,500
July 1, 2036	Term bonds (final maturity July 1, 2038)		133,500
July 1, 2037	Term bonds (final maturity July 1, 2038)		133,500
July 1, 2038	Term bonds (final maturity July 1, 2038)		133,500
	Subtotal		667,500
Total		$	867,500

The System complied with the sinking fund requirements at June 30, 2014.

Series B Bonds – The aggregate principal amount of the Series B Bonds amounted to approximately $1,059 million of which $816 million were issued as term bonds (the Series B Term Bonds) and $243 million were issued as capital appreciation bonds (the Series B Capital Appreciation Bonds). Interest in the Series B Term Bonds are payable monthly on the first day of each month. Interest on the Series B Capital Appreciation Bonds are not payable on a current basis, but are added to the principal of the Series B Capital Appreciation Bonds on each January 1 and July 1 (Compounding Dates), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360 day year consisting of twelve 30 day months.

The Series B Bonds are subject to redemption at the option of the System from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series B Capital Appreciation Bonds, the accreted amount) of the Series B Bonds, plus accrued interest to the redemption date, and without premium.

Series C Bonds – The aggregate principal amount of the Series C Bonds amounted to approximately $300 million of which $298 million were issued as term bonds (the Series C Term Bonds) and $2 million were issued as capital appreciation bonds (the Series C Capital Appreciation Bonds). Interest in the Series C Term Bonds are payable monthly on the first day of each month. Interest on the Series C Capital Appreciation Bonds are not payable on a current basis, but are added to the principal of the Series C Capital Appreciation Bonds on each January 1 and July 1 (Compounding Dates), and are treated as if accruing in equal daily

amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360 day year consisting of twelve 30 day months.

The Series C Bonds are subject to redemption at the option of the System from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series C Capital Appreciation Bonds, the accreted amount) of the Series C Bonds, plus accrued interest to the redemption date, and without premium.

In addition, the following Series C Term Bonds are subject to mandatory redemption in part commencing on July 1, 2024 to the extent of the sinking fund requirement for said bonds set forth below at a redemption price equal to 100% of the principal amount thereof plus accrued interest as follows (in thousands):

Redemption period	Subject bonds		Amount
July 1, 2024	Term bonds (final maturity July 1, 2028)	$	18,700
July 1, 2025	Term bonds (final maturity July 1, 2028)		22,000
July 1, 2026	Term bonds (final maturity July 1, 2028)		29,150
July 1, 2027	Term bonds (final maturity July 1, 2028)		36,300
July 1, 2028	Term bonds (final maturity July 1, 2028)		3,850
	Subtotal		110,000
July 1, 2029	Term bonds (final maturity July 1, 2038)		100
July 1, 2030	Term bonds (final maturity July 1, 2038)		540
July 1, 2031	Term bonds (final maturity July 1, 2038)		100
July 1, 2032	Term bonds (final maturity July 1, 2038)		3,420
July 1, 2033	Term bonds (final maturity July 1, 2038)		4,320
July 1, 2034	Term bonds (final maturity July 1, 2038)		100
July 1, 2035	Term bonds (final maturity July 1, 2038)		11,940
July 1, 2036	Term bonds (final maturity July 1, 2038)		2,160
July 1, 2037	Term bonds (final maturity July 1, 2038)		7,920
July 1, 2038	Term bonds (final maturity July 1, 2038)		14,400
	Subtotal		45,000
July 1, 2039	Term bonds (final maturity July 1, 2043)		28,600
July 1, 2040	Term bonds (final maturity July 1, 2043)		28,600
July 1, 2041	Term bonds (final maturity July 1, 2043)		28,600
July 1, 2042	Term bonds (final maturity July 1, 2043)		28,600
July 1, 2043	Term bonds (final maturity July 1, 2043)		28,600
	Subtotal		143,000
Total		$	298,000

The System complied with the sinking fund requirements at June 30, 2014.

Debt service requirements in future years on the System's bonds as of June 30, 2014 are as follows (in thousands):

	Principal	Interest	Total
Year ending June 30:			
2015	$ —	166,519	166,519
2016	—	166,519	166,519
2017	—	166,519	166,519
2018	—	166,519	166,519
2019	—	166,519	166,519
2020–2024	200,000	811,924	1,011,924
2025–2029	387,250	753,416	1,140,666
2030–2034	904,490	716,791	1,621,281
2035–2039	1,045,100	548,184	1,593,284
2040–2044	543,270	285,615	828,885
2045–2049	—	247,568	247,568
2050–2054	—	247,568	247,568
2055–2059	761,000	131,562	892,562
	3,841,110	4,575,223	$ 8,416,333
Less:			
Unaccreted interest	(756,961)		
Unamortized discount	(6,562)		
Total	$ 3,077,587		

Pledge of Employer Contributions Pursuant to Security Agreement – The System entered into a Security Agreement with the Fiscal Agent for the benefit of the bondholders, pursuant to which the System pledged to the Fiscal Agent, and granted the Fiscal Agent a security interest in employer contributions made after January 31, 2008, which was the date of issuance of the first series of bonds, and the funds on deposit with the Fiscal Agent under the various accounts established under the Pension Funding Bond Resolution (the Resolution).

The Resolution and the Security Agreement constitute a contract between the System and the Fiscal Agent, on behalf of the owners of the bonds. The pledge, covenants and agreements of the System set forth in the Resolution and the Security Agreement shall be for the equal benefit, protection and security of the owners of the bonds, regardless of time or times of their issuance or maturity, and shall be of equal rank, without preference, priority or distinction of any of the bonds over any other bond, except as expressly provided in or permitted by the Resolution. Annual employer contributions that are made after January 31, 2008, which was the date of issuance of the first series of bonds, in accordance with the Act and amounts on deposit in the different accounts created pursuant to the Resolution for the benefits of the owners of the bonds, are pledged for annual debt service requirements as established. The pledge is irrevocable so long as any bonds are outstanding under the terms of the Resolution.

(11) Voluntary Termination Benefits

On July 2, 2010, the Commonwealth enacted Act No. 70 establishing a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined. Act No. 70 also established that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of creditable services and will consist of monthly benefits ranging from 37.5% to 50% of each employees' monthly salary. Benefits under this program will be paid by the Commonwealth's General Fund, by the public corporations and by the System, covering their respective employees until the plan member reaches the later of age 55 for members under Act No. 447 or age 65 for members under Act No. 1, or the date the plan member would have completed 30 years of service had the member continued employment. In addition, the public corporations and the System, as employers, will also be required to continue making the required employee and employer contributions to the System. The Commonwealth's General Fund will be required to continue making its required employer contributions. The System will be responsible for benefit payments afterwards. As of June 30, 2014, the System has recorded a liability of approximately $14 million for its responsibility as an employer under Act No. 70.

(12) COFINA Bonds

Pursuant to Act No. 96 of June 16th, 2011, during the fiscal year ended June 30, 2011, the System received a special contribution of approximately $163 million from the Puerto Rico Infrastructure Financing Authority, an instrumentality of the Commonwealth. The contribution was invested in bonds issued by the Puerto Rico Sales Tax Financing Corporation (known as COFINA by its Spanish acronym), which provide for a 7% accretion rate and maturity dates between 2043 and 2048. COFINA is a blended component unit of the Commonwealth. As required by Act No. 96 of June 16th, 2011, the System cannot voluntary dispose the COFINA Bonds unless such request has been approved by the GDB. The COFINA Bonds have a fair value of approximately $138 million as of June 30, 2014.

(13) Guarantee Insurance Reserve for Member Loans

The System provides life insurance that guarantees the payment of the outstanding principal balance of mortgage, personal and cultural trip loans in case of death of a plan member. The plan members who obtained these loans from the System pay the coverage in its entirety. The life insurance rates are actuarially determined and do not vary by age, sex, or health status.

(14) Other Postemployment Healthcare Benefits Funded Status and Funding Progress

The System's other postemployment healthcare benefits (OPEB) funded status as of June 30, 2014, the most recent actuarial valuation date, is as follows (dollars in thousands):

Actuarial value of plan assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded ratio	Annual covered payroll	UAAL as a percentage of annual covered payroll
$ —	1,438,475	1,438,475	—%	$ 3,489,096	41.2%

The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

Act No. 3 eliminated the medical insurance plan contribution of $100 per month for future retirees effective July 1, 2013.

The census data collection date has changed from end-of-year to beginning-of-year. For this switchover year, the June 30, 2013 census data used in the prior valuation is also used as the July 1, 2013 census data for the current valuation. The liability results as of June 30, 2014 are based on projecting the System obligations determined as of the census data collection date of July 1, 2013 for one year, using roll-forward methods and assuming no liability gains or losses. In addition, the actuarial cost method was revised in fiscal year 2014 from projected unit credit (used in the actuarial valuations for fiscal year 2013 and before) to the entry age normal method to conform to the requirements of pension benefits. The amortization period for GASB Statement No. 45 has been reduced to the expected future lifetime of current in pay members.

The actuarial valuations used the following actuarial assumptions:

Actuarial cost method	Entry Age Normal
Amortization method	18 years closed (beginning July 1, 2014), level dollar
Remaining amortization period	18 years
Asset valuation method	Not applicable
Actuarial assumptions:	
Investment rate of return	3.10%
Projected salary increases	Not applicable
Projected payroll growth	Not applicable
Inflation	Not applicable
Cost of living adjustment	Not applicable

Actuarial valuations of an ongoing plan involve estimates of the net value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and mortality. Amounts determined are subject to continuous revision as actual results are compared with past expectations and new estimates are made about the future.

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projection of OPEB for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

The actuarial calculations reflect a long–term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short–term volatility in actuarial accrued liabilities and actuarial value of assets.

The OPEB mortality rate assumptions are the same as that for pension benefits. Refer to note 5.

(15) Contingencies

The System is a defendant in a lawsuit challenging the constitutionality of Act No. 3 and in another lawsuit challenging the constitutionality Act No. 3 and Act No. 32.

In the first lawsuit, the plaintiffs requested the System to honor the participants of an employer of the System, the benefits available to them under Act No. 447 which were affected by Act No. 3 of 2013, with the economic consequences that this would entail. On February 13, 2015, the Puerto Rico Supreme Court denied the plaintiff's recourse. On March 6, 2014, the plaintiffs file an amended complaint, including the System's Board of Trustees as a defendant and including a torts claim against the System's Administration and its Board of Trustees.

In the second lawsuit, the plaintiffs requested the annulment of the provisions of law imposing economic obligations to municipalities in favor of the System. Act No. 3 imposed a $2,000 contribution to all municipalities and public corporations for every retiree as of June 30, 2013 and Act No. 32 imposed an additional uniform contribution according to the corresponding proportion of the employer's contributions. On May 5, 2015, the Puerto Rico First Court of Instance issued a judgment dismissing the case. On July 27, 2015, the plaintiffs filed an appeal at the Puerto Rico Court of Appeals. On January 5, 2016, the Puerto Rico Court of Appeals upheld the decision regarding the dismissal of the case. On April 5, 2016, the plaintiffs filed a Certiorari before the Puerto Rico Supreme Court. The Puerto Rico Supreme Court has yet to issue a ruling regarding this. Although an economic compensation was not requested in this second case, if a ruling declaring invalidity of the questioned articles is made by the Puerto Rico Supreme Court, the System will not receive the payments imposed by Act No. 3 and Act No. 32 to the municipalities and the System would have to refund payments already made under those law provisions.

With respect to these lawsuits, the System, in consultation with legal counsel, has determined that at this stage of the proceedings they cannot offer an opinion as to the probable outcome. Accordingly, management does not consider necessary making any provision in its books for these cases and intends to contest them vigorously.

The System is also a defendant in a lawsuit brought by pensioners of the System. They filed the claim on behalf of the System against the underwriters of certain pension bonds of the System and some of the former members of the Board of Trustees of the System. The complaint requested $800 million in damages resulting from the $3 billion bond issuance in 2008 that, according to the plaintiffs, compromised the solvency of the System. This case is in its initial stages, therefore no provision for liability, if any, which may result upon adjudication of this lawsuit has been recorded by the System.

In addition, the System is a defendant or co-defendant in various lawsuits resulting from the ordinary conduct of its operations. Based on the advice of legal counsel and considering insurance coverages, management is of the opinion that the ultimate liability, if any, will not have a significant effect on the financial status of the System.

(16) Restatement

The following table summarizes the changes to the net position restricted for pensions at the beginning of the year as previously reported by the System (expressed in thousands):

Net position restricted for pensions – July 1, 2013, as previously reported	$	731,342
Impact of GASB Statement No. 65 implementation		(29,981)
Correction of immaterial error		13,696
Net position restricted for pensions – July 1, 2013, as restated and adjusted	$	715,057

As discussed in note 2(i)a, the System adopted GASB Statement No. 65 effective July 1, 2013. At transition, the impact of GASB Statement No. 65 was to decrease the fiduciary net position as of July 1, 2013 by approximately $30 million reflecting the cumulative retrospective effect of derecognizing the debt issuance costs which had previously been deferred in the statement of fiduciary net position.

While preparing the 2014 financial statements, management of the System identified an error whereby the System made benefit payments for JRS retirees. Between 1991 and 2013, the System paid $8.4 million, net, related to JRS retirees. As a result of the incorrect payments made, it is estimated that the System lost $5.2 million of net investment income over time. The total of these amounts, is the amount by which the System's beginning net position restricted for pensions was understated.

(17) Subsequent Events

Subsequent events were evaluated through June 1, 2016, the date the financial statements were available to be issued, to determine if such events should be recognized or disclosed in the 2014 financial statements.

On April 6, 2016, the Governor of Puerto Rico signed into law the Puerto Rico Emergency Moratorium and Rehabilitation Act ("Act No. 21"). Among other objectives, Act No. 21 allows the Governor to declare – at some point in the future – a moratorium on debt service payments and to stay related creditor remedies for a temporary period for the Commonwealth, the GDB, the Economic Development Bank for Puerto Rico, and certain additional government instrumentalities in Puerto Rico, including the System. The temporary period set forth in Act No. 21 lasts until January 31, 2017, with a possible two-month extension in the Governor's discretion. The provisions regarding the moratorium and stay in respect of any obligations owed by the System require executive action of the Governor to become effective. At this time, the Governor has not taken any executive action in respect of the System, and Act No. 21 does not currently affect the System's obligations, including to make debt service payments.

On April 8, 2016, the Governor of Puerto Rico signed an executive order, EO-2016-010 (the "Executive Order"), declaring GDB to be in a state of emergency pursuant to Act No. 21. The Executive Order, in accordance with the emergency powers provided for in Act No. 21, implemented a regulatory framework governing GDB's operations and liquidity, including establishing a procedure with respect to governmental withdrawals, payments, and transfer requests in respect of funds held on deposit at GDB and loan disbursements by GDB. The procedures implemented by the Executive Order may result in restrictions on the ability of the System to withdraw any funds held on deposit at GDB or to receive any disbursements on loans granted by GDB during the period of the Executive Order, which is in effect until June 30, 2016. However, while the Executive Order created a stay on the enforcement of certain financial debt obligations of GDB, it did not impose a moratorium on any financial debt obligation of GDB. The Executive Order did not declare an emergency period for the Commonwealth itself, the System or any other entity, other than GDB.

REQUIRED SUPPLEMENTARY INFORMATION

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Changes in the Employers' Net Pension Liability and Related Ratios – Pension Benefits (Unaudited)

Year Ended June 30, 2014

(Dollars in thousands)

		Amount
Total pension liability:		
Service cost	$	419,183
Interest		1,321,478
Changes in benefit terms		—
Differences between expected and annual experience		53,939
Changes in assumptions		1,198,307
Benefit payments, including refunds of contributions		(1,714,758)
Net change in total pension liability		1,278,149
Total pension liability – beginning		28,941,368
Total pension liability – ending (a)		30,219,517
Plan's fiduciary net position:		
Employer contributions – net of provision		713,813
Member contributions		359,862
Net investment income		225,005
Other income		30,748
Benefit payments, including refunds of member contributions		(1,714,758)
Administrative expenses		(29,530)
Interest on bonds payable		(192,947)
Other expenses		(26,584)
Net change in plan fiduciary net position		(634,391)
Total fiduciary net position – beginning, as restated and adjusted		715,057
Total fiduciary net position – ending (b)		80,666
Employers' net pension liability – ending (a)-(b)	$	30,138,851
Plan's fiduciary net position as a percentage of the total pension liability		0.27%
Covered employee payroll	$	3,489,096
Employers' net pension liability as a percentage of covered employee payroll		863.80%

Note:

Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

See accompanying notes to required supplementary information and independent auditors' report.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of the Employers' Contributions – Pension Benefits (Unaudited)

Last Seven Fiscal Years

(Dollars in thousands)

		2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution	$	1,822,675	2,192,821	2,019,467	1,734,979	1,459,774	1,258,695	1,191,275
Contributions in relation to annual required contribution (a)		713,813	628,647	589,767	701,399	531,136	595,863	662,275
Contribution deficiency	$	1,108,862	1,564,174	1,429,700	1,033,580	928,638	662,832	529,000
Covered employee payroll (b)	$	3,489,096	3,489,096	3,570,339	3,666,402	3,818,332	4,292,552	N/D
Contribution as a percentage of covered employee payroll (a)/(b)		20.46%	18.02%	16.52%	19.13%	13.91%	13.88%	N/D

N/D = Not determined.

Note:

The contribution requirement to the System is established by law and is not actuarially determined. Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

See accompanying notes to required supplementary information and independent auditors' report.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Investment Return – Pension Benefits (Unaudited)

Year Ended June 30, 2014

Annual money-weighted rate of return, net of investment expenses	11.2%

Note:

Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

See accompanying notes to required supplementary information and independent auditors' report.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Employers' Contributions – OPEB (Unaudited)

(Dollars in thousands)

Fiscal year ended	Annual required contributions	Actual employers' contributions	Percentage of contribution
June 30, 2014 (1)	$ 88,508	$ 102,085	115.3%
June 30, 2013	154,999	91,823	59.2
June 30, 2012	133,654	94,664	70.8
June 30, 2011	129,395	93,851	72.5
June 30, 2010	128,294	88,599	69.1
June 30, 2009	111,683	85,385	76.5
June 30, 2008	110,650	80,019	72.3

(1) The System's annual required contribution for the year ended June 30, 2014 was determined by the actuarial valuation as of June 30, 2013 that was updated to roll forward the funded status to June 30, 2014 and assuming no liability gains or losses.

See accompanying notes to required supplementary information and independent auditors' report.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Funding Progress – OPEB (Unaudited)

(Dollars in thousands)

Actuarial valuation date	Actuarial value of plan assets	Actuarial accrued liability (AAL)	Unfunded Actuarial accrued liability (UAAL)	Funded ratio	Annual covered payroll	UAAL percentage of annual covered payroll
June 30, 2014 (1)	$ —	$ 1,438,475	$ 1,438,475	—%	$ 3,489,096	41.2%
June 30, 2013	—	1,482,879	1,482,879	—	3,489,096	42.5
June 30, 2012	—	2,120,970	2,120,970	—	3,570,339	59.4
June 30, 2011	—	1,758,389	1,758,389	—	3,666,402	48.0
June 30, 2010	—	1,699,373	1,699,373	—	3,818,332	44.5
June 30, 2009	—	1,633,159	1,633,159	—	4,292,552	38.0

(1) The System's OPEB funded status as of June 30, 2014 was determined by the actuarial valuation as of June 30, 2013 that was updated to roll forward the funded status to June 30, 2014 and assuming no liability gains or losses.

See accompanying notes to required supplementary information and independent auditors' report.

Changes in Benefits Terms

There have not been any changes in plan provisions since the prior valuation. However, there have been significant changes in recent years as discussed below.

On April 4, 2013, the Legislature enacted Act No. 3 which amended Act No. 447, Act No. 1 of February 16, 1990 (Act No. 1), and Act No. 305 of September 24, 1999 (Act No. 305 or System 2000). Act No. 3 of 2013 (Act No. 3) reformed the System by, among other measures, reducing benefits, increasing employee contributions, and, in the case of active employees who were entitled to the defined benefits program, replacing most of the defined benefit elements with a defined contribution structure.

Act No. 3 established a contributory hybrid program (the Contributory Hybrid Program) similar to the System 2000 program that will eventually result in all active and retired members participating in a member-funded hybrid program. Act No. 3 froze all retirement benefits accrued through June 30, 2013 under Act No. 447 and Act No. 1 (defined benefit program), and thereafter, all future benefits will accrue under the defined contribution formula used for the System 2000 program participants. Ceasing future defined benefit accruals under Act 447 and Act 1 and converting to a member-funded hybrid plan will result in lower benefit payments as these tiers wind down, and will make all future employer contributions available to pay benefits and bonds payable debt service.

Participants in the defined benefit program who as of June 30, 2013 were entitled to retire and receive a pension, may retire on any later date and will receive the annuity corresponding to their retirement program, as well as the annuity accrued under the Contributory Hybrid Program. Participants who as of June 30, 2013 were not entitled to retire can retire depending on the new age limits defined by the Contributory Hybrid Program and will receive the annuity corresponding to their retirement program, as well as the annuity accrued under the Contributory Hybrid Program.

Participants in the System 2000 program who as of June 30, 2013 had reached the age of 60 may retire on any later date and will receive the annuity corresponding to their retirement program, as well as the annuity accrued under the Contributory Hybrid Program. Participants in the System 2000 program who as of June 30, 2013 had not reached the age of 60 can retire depending on the new age limits defined by the Contributory Hybrid Program and will receive the annuity corresponding to their retirement program, as well as the annuity accrued under the Contributory Hybrid Program.

In addition, Act No. 3 amended the provisions of the different benefit structures under the System including, but not limited to, the following:

- Retirement age – The retirement age for the frozen accrued benefits of Act No. 447 is gradually increased from age 58 to age 61, and from age 60 to age 65 for System 2000 program members, which results in a delay in cash outflow and thus lower cumulative future benefit payments to these members. Reduced early retirement was eliminated for Act No. 1, which also results in a delay in cash outflow. The retirement age for new employees was increased to age 67.
- Member contributions – The prior member contribution rate of 8.275% (varying for some members) is increased to 10% of pay. While this will result in higher hybrid program benefits in the future, it

will provide more assets in the near term that can support current benefit payments and bonds payable debt service.

- Mandated annuitization – System 2000 program notional accounts were available as lump sum payments at termination/retirement. With a full cohort of active System 2000 program members completing careers at roughly the same time that bonds payable principal payments begin, lump sum payments would have had a deleterious effect on the System's assets. Act No. 3 hybrid accounts, which include the System 2000 program accounts, are subject to mandatory annuitization, which will benefit the System on a cash flow basis by stretching out payments over time, thus providing the System "catch-up" time. The System has the authority for determining the annuitization factors and for updating the factors in future years.
- Survivor benefits – Act No. 447 and Act No. 1 offered survivor benefits at no cost to the retiree. For future retirees, the defined benefit portion of the Act No. 447 or Act No. 1 frozen annuity and the hybrid program Act No. 3 annuity will be subject to an actuarially determined reduction if the member elects an annuity with a survivor benefit, resulting in lower future cash outflow.
- The occupational death benefit and the one year of salary death benefit were eliminated for Act No. 447 and Act No. 1 members, resulting in lower future cash outflow.
- Disability benefits, other than those provided under Law No. 127, were eliminated, resulting in lower future cash outflow. (A member who becomes disabled may receive their hybrid account balance and their accrued benefit if applicable under Act No. 447 or Act No. 1).
- Special law benefits are reduced for current retirees and eliminated for future retirees. The Christmas bonus payable to current retirees was reduced from $600 to $200. The summer bonus was eliminated. The employers will continue making contributions to the System as if all special law benefits were still in place for current and future Act No. 447 and Act No. 1 retirees, which will result in additional cash that can be used for benefit payments and bonds payable debt service.
- Minimum benefits – The minimum pension payable was increased from $400 to $500 per month for current retirees only.
- Merit Annuity – The "Merit Annuity" available to participants who joined the System prior to April 1, 1990 was eliminated.

Changes in Assumptions

Actuarial assumptions are revised periodically to more closely reflect actual, as well as anticipated future experience.

Due to the change in the census collection date to the beginning of the fiscal year, rather than the end of the fiscal year, demographic gain/loss during the year is limited to the difference between actual and expected benefit payments, which arise from differences in termination and retirement activity and mortality versus expectations. In fiscal year 2014, this difference resulted in a loss of $54 million.

The asset basis for the date of depletion projection is the System's fiduciary net position (the gross assets plus deferred outflows of resources less the gross liabilities, including the senior pension funding bonds payable, plus deferred inflows of resources). On this basis, the System's fiduciary net position was estimated to be exhausted in the fiscal year 2015.

In addition, the date of depletion projection of the actuarial report does not include any amounts from the additional uniform contribution required by Act No. 32 because of actual fiscal and budgetary financial difficulties with continued budget deficits and liquidity risks of the Commonwealth and the municipalities and in the event that their financial condition do not improve in the near term.

The System's fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the tax free municipal bond index (Bond Buyer General Obligation 20-Bond Municipal Bond Index) was applied to all periods of projected benefits payments to determine the total pension liability.

The discount rate used to determine the annual required contribution decreased from 6.40% at June 30, 2013 to 4.29% at June 30, 2014. Under GASB Statements No. 25 and No. 27, the investment return assumption was used to discount all projected Basic System Pension Benefits and System Administered Pension Benefits to determine the Actuarial Accrued Liability. Under GASB Statement No. 67, the investment return assumption is an input that is used in the calculation of the single equivalent interest rate that is used to discount these benefits to determine the Total Pension Liability. For fiscal years 2008 to 2010 and for fiscal years 2011 and 2012, the discount rates were 7.50%, 6.40% and 6.00%, respectively.

Also, the fiscal year valuation reflects a salary freeze until July 1, 2017 due to Act No. 66 and the current economic conditions in Puerto Rico.

Changes in Actuarial Methods since the prior Valuation

The census data collection date has changed from end-of-year to beginning-of-year. For this switchover year, the June 30, 2013 census data used in the prior valuation is also used as the July 1, 2013 census data for the current valuation. The liability results as of June 30, 2014 are based on projecting the System obligations determined as of the census data collection date of July 1, 2013 for one year, using roll-forward methods and assuming no liability gains or losses.

The June 30, 2014, actuarial valuation reflects an increase of $1,198 million in the total pension liability as a result of the changes in assumptions as required by GASB Statement No. 67.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Required Supplementary Information

June 30, 2014

Method and Assumptions Used in Calculation of the System's Annual Required Contributions

Unless otherwise noted above, the following actuarial methods and assumptions were used to determine contribution rates reported in the Pension Benefits Schedule of the Employers' Contributions:

Inflation	2.50%
Investment rate of return	6.75%, net of investment expenses, including inflation
Municipal bond index	4.29%, as per Bond Buyer General Obligation 20 – Bond Municipal Bond Index
Discount rate	4.29%
Projected salary increases	3.00% per year. No compensation increases are assumed until July 1, 2017 as a result of Act No. 66 and the current general economy.
Mortality	Pre-retirement Mortality: For general employees not covered under Act No. 127, RP-2000 Employee Mortality Rates for males and females projected on a generational basis using Scale AA. For members covered under Act No. 127, RP-2000 Employee Mortality Rates with blue collar adjustments for males and females, projected on a generational basis using Scale AA. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127. Post-retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females. The rates are projected on a generational basis starting in 1994 using Scale AA. As a generational table, it reflects mortality improvements both before and after the measurement date. Post-retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2007 to 2012 equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. No provision was made for future mortality improvement for disabled retirees.

Exhibit 77

GOVERNMENT OF PUERTO RICO

Puerto Rico Fiscal Agency and Financial Advisory Authority

Municipal Secondary Market Disclosure Information Cover Sheet
Municipal Securities Rulemaking Board (MSRB)
Electronic Municipal Market Access System (EMMA)

THIS FILING RELATES TO A SINGLE BOND ISSUE:

Name of bond issue exactly as it appears on the cover of the Official Statement:

____

Nine-digit CUSIP* numbers if available, to which the information relates:

____

THIS FILING RELATES TO ALL OR SEVERAL SECURITIES ISSUED BY THE ISSUER, OR ALL OR SEVERAL SECURITIES OF A SPECIFIC CREDITOR:

Issuer's Name: **Employees Retirement System of the Government of the Commonwealth of Puerto Rico**

Other Obligated Person's Name (if any): ____________

Six-digit CUSIP* number(s): **29216M**

TYPE OF INFORMATION PROVIDED:

A. ☐ **Annual Financial Information and Operating Data pursuant to Rule 15c2-12**

Fiscal Period Covered: ____________

B. ☒ **Audited Financial Statements or CAFR pursuant to Rule 15c2-12**

Fiscal Period Covered: 2014-15

C. ☐ **Notice of Failure to Provide Annual Financial Information as Required**

I represent that I am authorized by the issuer, obligor or its agent to distribute this information publicly.

/s/ Sebastián M. Torres Rodríguez
Sebastián M. Torres Rodríguez
Puerto Rico Fiscal Agency and Financial Advisory Authority,
as Fiscal Agent for the Commonwealth

Dated: May 3, 2018

KPMG

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements and Required Supplementary Information

June 30, 2015

(With Independent Auditors' Report Thereon)

**EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT
OF THE COMMONWEALTH OF PUERTO RICO**
(A Component Unit of the Commonwealth of Puerto Rico)

Table of Contents

KPMG LLP
American International Plaza
Suite 1100
250 Muñoz Rivera Avenue
San Juan, PR 00918-1819

Independent Auditors' Report

Retirement Board of the Government of Puerto Rico
Employees' Retirement System of
the Government of the Commonwealth of Puerto Rico:

We have audited the accompanying financial statements of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the System), which comprise the statement of fiduciary net position as of June 30, 2015, the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, which collectively comprise the System's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico as of June 30, 2015, and the changes in its fiduciary net position for the year then ended, in accordance with U.S. generally accepted accounting principles.

KPMG

Emphasis of Matters

Uncertainty about Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the System will continue as a going concern. As discussed in notes 3 and 14 to the basic financial statements on May 3, 2017 and May 22, 2017, the Oversight Board commenced cases for the Commonwealth of Puerto Rico and the System, respectively, by filing petitions for relief under Title III of the Puerto Rico Oversight, Management, and Economic Stability Act with the United States District Court for Puerto Rico. The fiscal and financial difficulties of the Commonwealth of Puerto Rico and the System causes management to conclude that there is substantial doubt about the System's ability to continue as a going concern.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis and the schedules included under the required supplementary information in the accompanying table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standard Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

San Juan, Puerto Rico
February 19, 2018

Stamp No. E304053 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis (Unaudited)

June 30, 2015

Introduction

The following discussion and analysis of the financial performance of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the System) provides an overview of its activities for the fiscal year ended June 30, 2015. Its purpose is to provide explanations and insights into the information presented in the basic financial statements and required supplementary information. This discussion and analysis is intended to be read in conjunction with the System's financial statements.

The System is a trust created by the Legislature of the Commonwealth of Puerto Rico (the Commonwealth) in 1951 pursuant to Act No. 447 of May 15, 1951, as amended, to provide pension and other benefits to retired employees of the Commonwealth, its public corporations and municipalities of Puerto Rico.

The System administers a cost-sharing, multi-employer, pension plan (the pension plan) that consists of three benefit structures: (i) a cost-sharing, multi-employer, defined benefit program, (ii) a defined contribution program (System 2000 program), and (iii) a contributory hybrid program. The System also administers postemployment healthcare benefits provided by the Commonwealth to retired plan members.

The System is considered an integral part of the financial reporting of the Commonwealth and is included in the Commonwealth's basic financial statements.

Overview of the Basic Financial Statements

The following discussion and analysis is intended to serve as an introduction to the System's basic financial statements. The basic financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) pronouncements and include the following:

- The Statement of Fiduciary Net Position presents the financial position of the System at fiscal year-end. It provides information about the nature and amounts of resources with present service capacity that the System presently controls (assets), consumption of net assets by the System that is applicable to a future reporting period (deferred outflow of resources), presents obligations to sacrifice resources that the System has little or no discretion to avoid (liabilities), and acquisition of net assets by the System that is applicable to a future reporting period (deferred inflow of resources) with the difference between assets/deferred outflow of resources and liabilities/deferred inflow of resources being reported as net position. Investments are shown at fair value. All other assets and liabilities are determined on an accrual basis.
- The Statement of Changes in Fiduciary Net Position presents the results of activities during the fiscal year. All changes affecting the assets/deferred outflow of resources and liabilities/deferred inflow of resources of the System are reflected on an accrual basis of when the activity occurred, regardless of the timing of the related cash flows. Changes in the fair values of investments are included in the year's activity as net appreciation (depreciation) in fair value of investments.
- The Notes to the Basic Financial Statements – provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes present information about the System's accounting policies, significant account balances and activities, material risks, obligations, contingencies, and subsequent events, if any.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis (Unaudited)

June 30, 2015

Required Supplementary Information is presented after the notes to the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB. It consists of information pertaining to the System's actuarial methods and assumptions and provides data on changes in the employers' net pension liability and related ratios, the pension benefits employers' contributions, and the pension benefits' investment return as well as data on the System's other postemployment benefits.

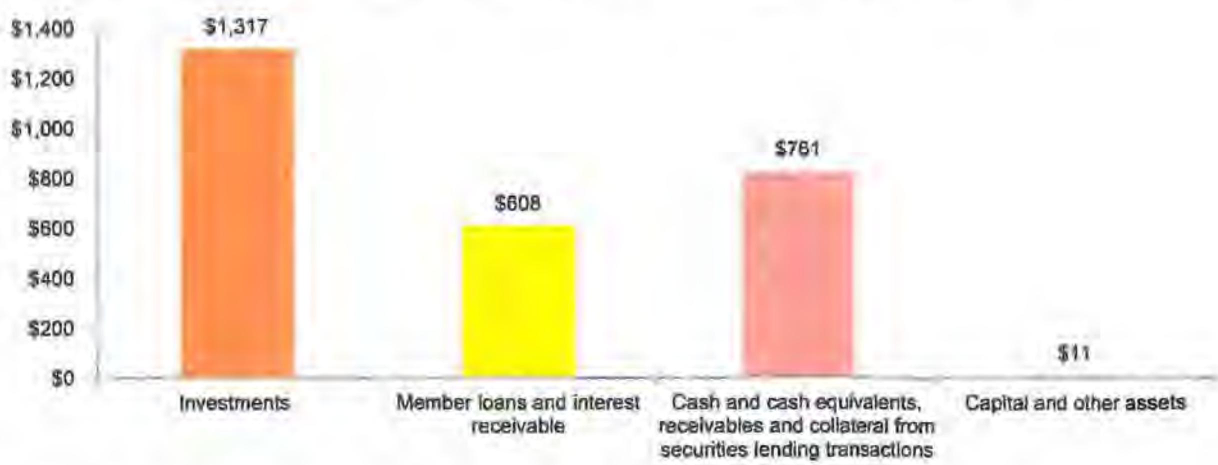
Financial Highlights

The System provides retirement benefits to employees of the Commonwealth. The System's total assets as of June 30, 2015 and 2014 amounted to approximately $2,697 million and $3,431 million, respectively.

As of June 30, 2015, the System's total assets consisted of the following:

- $1,263 million of investments in bonds, stocks and nonexchange commingled trust funds
- $54 million in investments in limited partnerships
- $608 million in member loans and interest receivable
- $761 million in cash and cash equivalents, receivables and collateral from securities lending transactions.
- $11 million in capital and other assets

The System's total assets as of June 30, 2015 are presented in the following chart (in millions):



As of June 30, 2014, the System's total assets consisted of the following:

- $2,088 million of investments in bonds, stocks and nonexchange commingled trust funds
- $54 million in investments in limited partnerships
- $619 million in member loans and interest receivable

- $652 million in cash and cash equivalents, receivables and collateral from securities lending transactions.
- $17 million in capital and other assets

The System's total assets as of June 30, 2014 are presented in the following chart (in millions):

- The System is in a deficit position since fiscal year 2015. The System's total liabilities exceeded total assets, representing a fiduciary net deficit position of approximately $668 million as of June 30, 2015, compared with fiduciary net position of approximately $81 million (total assets exceeded total liabilities) as of June 30, 2014.
- The plan's fiduciary net deficit position as a percentage of the total pension liability was negative 2.05% at June 30, 2015 and 0.27% at June 30, 2014.
- The medical insurance plan contribution, which constitutes the other postemployment healthcare benefits, is financed by the Commonwealth on a pay-as-you-go basis and consequently is unfunded.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT
OF THE COMMONWEALTH OF PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)
Management's Discussion and Analysis (Unaudited)
June 30, 2015

The following schedules present comparative summary financial statements of the System's fiduciary net position and changes in fiduciary net position for fiscal years 2015 and 2014:

Comparative Summary of Fiduciary Net Position – Pension Benefits

	2015	2014	Total dollar change	Total percentage change
	(Dollars in thousands)			
Assets:				
Cash and cash equivalents, receivables-net and collateral from securities lending transactions	$ 761,235	652,360	108,875	16.7 %
Investments	1,316,611	2,142,022	(825,411)	(38.5)
Member loans and interest receivable – net	607,617	619,379	(11,762)	(1.9)
Capital assets and other	11,306	16,906	(5,600)	(33.1)
Total assets	2,696,769	3,430,667	(733,898)	(21.4)
Liabilities:				
Accounts payable and accrued liabilities	9,329	12,236	(2,907)	(23.8)
Bond interest payable	13,876	13,876	—	—
Payable for investment securities purchased	7,754	19,009	(11,255)	(59.2)
Securities lending obligations	80,071	126,648	(46,577)	(36.8)
Due to Commonwealth of Puerto Rico	76,613	37,082	39,531	106.6
Escrow funds of mortgage loans and guarantee insurance reserve for loans to plan members	10,212	7,895	2,317	29.3
Bonds payable	3,105,448	3,077,587	27,861	0.9
Other liabilities	61,738	55,668	6,070	10.9
Total liabilities	3,365,041	3,350,001	15,040	0.4
Net position (deficit)	$ (668,272)	80,666	(748,938)	(928.4)%

 (Continued)

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT
OF THE COMMONWEALTH OF PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)
Management's Discussion and Analysis (Unaudited)
June 30, 2015

Comparative Summary of Changes in Fiduciary Net Position – Pension Benefits

		2015	2014	Total dollar change	Total percentage change
			(Dollar in thousands)		
Additions:					
Contributions:					
Employer contributions:					
Basic benefits	$	479,911	485,114	(5,203)	(1.1)%
Special benefits		186,136	228,699	(42,563)	(18.6)
Member contributions		339,650	359,862	(20,212)	(5.6)
Net investment income		29,258	225,005	(195,747)	(87.0)
Other income		28,499	30,748	(2,249)	(7.3)
Total additions		1,063,454	1,329,428	(265,974)	(20.0)
Deductions:					
Benefits paid to participants		1,541,324	1,548,423	(7,099)	(0.5)
Refunds of contributions		31,351	166,335	(134,984)	(81.2)
Interest on bonds payable		194,400	192,947	1,453	0.8
General and administrative		33,623	29,530	4,093	13.9
Other expenses		11,694	26,584	(14,890)	(56.0)
Total deductions		1,812,392	1,963,819	(151,427)	(7.7)
Net decrease in net position		(748,938)	(634,391)	(114,547)	18.1
Net position (deficit):					
Beginning of year		80,666	715,057	(634,391)	(88.7)
End of year	$	(668,272)	80,666	(748,938)	(928.4)%

Going Concern Uncertainty of the System

The discussion in note 3 to the financial statements provides information regarding the System's going concern uncertainty.

The System is a mature retirement system with a significant retiree population. The System's net pension liability and the fiduciary net deficit position as a percentage of the total pension liability (the funded ratio) as of June 30, 2015, are approximately $33,337 million and negative 2.05%, respectively. The System is in a deficit position since fiscal year 2015. Based on the statutory funding requirements, the annual benefit payments and administrative expenses paid by the System were significantly larger than the member and employers' contributions to the System. Due to the small asset base, investment income was insufficient to cover the negative cash flow. Illiquid assets (employers' account receivable, net, member loans and related interest receivable, COFINA investment and investments in limited partnerships) amounted to approximately $997 million or 36% of the System total assets as of June 30, 2015. Because of the System's liquidity issues, it may be forced to sell illiquid assets, specifically member loans, potentially at significant loss to further detriment of the System.

As described in notes 3 and 14 to the financial statements, in July 2017, the System sold investments amounting to approximately $297 million and started operating on a "pay as you go" basis, which means that the System would be unable to pay benefits that exceed the actual employer and member contributions received (net of administrative and other expenses), from the Commonwealth.

The System's funding requirements, together with the funding requirements of the Retirement System for the Judiciary of the Commonwealth of Puerto Rico (JRS) and the Puerto Rico System of Annuities and Pensions for Teachers (TRS), could have a negative effect on the Commonwealth's General Fund, since the Commonwealth is the primary sponsor and is obligated to make contributions to fund each of the systems.

The Commonwealth and the other participating employers have been facing significant fiscal and economic challenges in recent years due, among other factors, to continued budget deficits, a prolonged economic recession, high unemployment, population decline, and high levels of debt and pension obligations. The June 30, 2014 financial statements of the Commonwealth disclosed that there is substantial doubt about the Commonwealth ability to continue as a going concern.

On May 2, 2017, the legal shield (stay of the debt) granted by the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) protecting the Commonwealth from debt-related lawsuits expired. On May 3, 2017, the Commonwealth filed a petition for protection under Title III of PROMESA to ensure the essential services to the public, the payment of the government payroll and the suppliers.

If the Commonwealth's financial condition does not improve as a result of fiscal and budgetary measures it is taking, its ability to repay its obligations, including its regular employer contributions to the System and its additional contribution as provided by Act No. 32 of 2013 (Act No. 32), for the upcoming years, may continue to be adversely affected, and could also affect the payment of benefits and the repayment of the System's bonds payable.

Comparative Summary of Fiduciary Net Position Analysis – Pension Benefits

The basic financial statements of the System for the fiscal year ended June 30, 2015, present a decrease in net position of approximately $749 million, resulting in a net deficit position of approximately $668 million as of June 30, 2015, compared with a net position of approximately $81 million as of June 30, 2014. The decrease in the net position in the fiscal year 2015 resulted from the excess of deductions, mainly benefits paid to

participants, over additions, mainly contributions from participating employers and employees. The decrease in net position mainly caused a decrease in investments of approximately $825 million in fiscal year 2015.

Total contributions from participating employers and members increased by approximately $60 million, from $1,074 million during fiscal year 2014 to approximately $1,005 million during fiscal year 2015. Total net investment and securities lending transaction income decreased by approximately $192 million, from approximately $225 million during fiscal year 2014 to approximately $33 million during fiscal year 2015. The System recognized a net depreciation in the fair value of investments of approximately $46 million during 2015, compared with a net appreciation in the fair value of investments of approximately $125 million recognized in 2014. Also, the System recognized an impairment loss on deposits with a governmental bank of approximately $3 million in fiscal year 2015 (refer to note 6 to the financial statements).

Total deductions decreased by approximately $152 million in fiscal year 2015, mainly as a result of the decrease of approximately $135 million in the refunds of contributions paid to participating employees who resigned in 2014 mainly as a result of implementation of Act No. 3 of 2013 (Act No. 3) and the decrease of approximately $7 million in benefits paid to participants. Benefits paid to participants amounted to approximately $1,541 million for the fiscal year 2015 and approximately $1,548 million for the fiscal year 2014. Refunds of contributions amounted to approximately $31 million for the fiscal year 2015 and approximately $166 million for the fiscal year 2014.

During fiscal year 2007, the Board of Trustees approved the issuance of bonds payable to increase the funds available to pay pension benefits to certain beneficiaries and to reduce the unfunded accrued actuarial liability. As of June 30, 2015, bonds payable amounted to approximately $3,105 million.

Other Postemployment Healthcare Benefits

Other postemployment healthcare benefits paid during the fiscal year 2015 amounted to approximately $97 million, a decrease of approximately $5 million or 5% when compared to the $102 million paid during fiscal year 2014. Effective July 1, 2013, no benefits are provided to new retirees, as required by Act No. 3.

Financial Analysis of the System

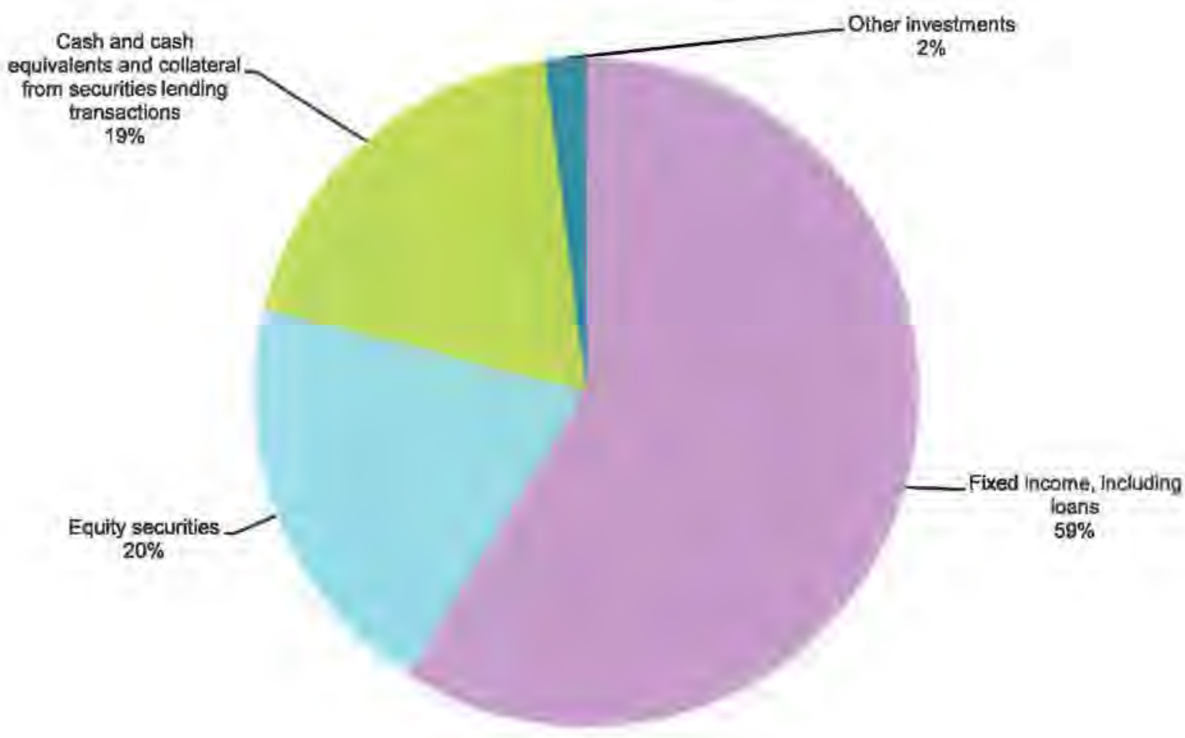
As of June 30, 2015 and 2014, the System held approximately $608 million and $619 million, respectively, in loans and interest receivable from plan members, which represents 32% and 22%, respectively, of the total investment portfolio, including loans. As of June 30, 2015, member loans and interest receivable consisted of $171 million in mortgage loans, $360 million in personal loans, $41 million in cultural trips loans, and $37 million in interest receivable, less $2 million in allowance for adjustments and losses in realization. As of June 30, 2014, member loans and interest receivable consisted of approximately $164 million in mortgage loans, approximately $374 million in personal loans, $45 million in cultural trips loans, and $40 million in interest receivable, less approximately $4 million in allowance for adjustment and losses in realization. As of June 30, 2015 and 2014, the fair value of the System's investment in limited partnerships amounted to approximately $54 million, which represented approximately 4% and 3% of the investment portfolio, as of June 30, 2015 and 2014, respectively.

The System earns additional investment income by lending investment securities to brokers via its custodian's securities lending program. The brokers provide collateral to the System and generally use the borrowed securities to cover short sales and failed trades. The cash collateral received from the brokers is invested in a short-term investment fund in order to earn interest. For the years ended June 30, 2015 and 2014, net income from the securities lending activity amounted to approximately $165,000 and $298,000, respectively.

Investment Portfolio and Capital Markets Overview

The System's total investment assets, including member loans, collateral from securities lending transactions and cash and cash equivalents (investment portfolio, including loans), as of June 30, 2015 totaled approximately $2,367 million. Member loans amounted to $608 million as of June 30, 2015.

As of June 30, 2015, the System's investment portfolio allocation, including member loans, was 59% in fixed-income investments, including loans receivable, 20% in equity securities, 19% in cash and short-term investments, and 2% in other investments as shown in the following chart:



EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis (Unaudited)

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Economy and Capital Markets Overview

Following two consecutive fiscal years posting double-digit returns, the 2015 fiscal year faced headwinds across global markets. Overall, U.S. equity markets fared better than markets overseas supported by strong economic data. European markets suffered from a weakening economy as both French and German GDP growth reports indicated a sharp slowdown. The European Central Bank (ECB) also cut its benchmark lending rate to 0.15% from 0.25% in June 2014 and went further in September 2014 to cut it to 0.05%. In October 2014, the Federal Reserve ended the third round of its quantitative easing program and provided a cautious stance on raising interest rates before gradually preparing markets for a rate hike. The United States (U.S.) markets continued to outperform buoyed by evidence that the recovery picked up pace in the closing months of 2014.

The beginning of 2015 saw a bounce back in international developed markets as the ECB introduced a long awaited Quantitative Easing program and would finally begin to buy sovereign European bonds at a rate of €60bn per month until September 2016. Emerging markets also showed some signs of stabilization following a particularly difficult period plagued by sharp falls in the price of oil and the strength in the dollar. During the 2015 Fiscal Year oil prices fell over 40% as measured by the WTI Cushing Spot due to oversupply and suppressed levels of demand. Additionally, the U.S. dollar appreciated drastically relative to most currencies, rallying roughly 25% over the first nine-months of the 2015 Fiscal Year.

With continued economic growth and general support from the Fed, domestic equity markets returned 7.2% as measured by the Dow Jones U.S. Total Stock Market Index during the 2015 Fiscal Year. Conversely, developed international and emerging equity markets returned negative 4.2% and negative 5.1%, as measured by the MSCI EAFE Index and the MSCI Emerging Markets Index, respectively. The U.S. bond market provided somewhat of a safe-haven for investors. Despite a slight uptick in U.S. Treasury rates in the second half of the fiscal year, rates fell over the full fiscal year period and the broad U.S. bond market, as measured by the Barclays Aggregate Bond Index, returned 1.9%. The Barclays Intermediate Credit Index slightly trailed the broad market and returned 1.5% during period.

Industry Indices Performance Overview

Total Fund Performance

The System's total investment portfolio, including member loans, returned 3.9% while total investments, excluding loans returned 2.0% during the 2015 Fiscal Year, modestly underperforming its policy benchmark by 0.3% points. Underperformance was primarily due to an underweight allocation to domestic equities relative to the long-term target weights.

The table below shows the fiscal year and quarter returns of major indices during the fiscal year ended June 30, 2015:

Indices	FY 2015	First quarter FY 2015	Second quarter FY 2015	Third quarter FY 2015	Fourth quarter FY 2015
Dow Jones U. S. Total Stock Market	7.2 %	(0.1)%	5.2 %	1.8 %	0.1 %
S&P 500	7.4	1.1	4.9	1.0	0.3
Russell 1000 Large Growth	10.6	1.5	4.8	3.8	0.1
Russell 1000 Large Value	4.1	(0.2)	5.0	(0.7)	0.1
Russell 3000	7.3	—	5.2	1.8	0.1
Russell 2000	6.5	(7.4)	9.7	4.3	0.4
Russell 2000 Growth	12.3	(6.1)	10.1	6.6	2.0
Russell 2000 Value	0.8	(8.6)	9.4	2.0	(1.2)
MSCI ACW ex-U.S.	(5.3)	(5.3)	(3.9)	3.5	0.5
MSCI EAFE	(4.2)	(5.9)	(3.6)	4.9	0.6
MSCI Emerging Markets	(5.1)	(3.5)	(4.5)	2.2	0.7
Barclays Aggregate Bond	1.9	0.2	1.8	1.6	(1.7)
Barclays Intermediate Credit	1.5	(0.1)	0.8	1.8	(0.9)

United States Equity Overview for the Fiscal Year 2015

U.S. equity markets as measured by the Dow Jones U.S. Total Stock Market Index gained 7.2% during the fiscal year. A majority of the sectors posted positive returns during the period with the exception of the energy, materials, and utilities sectors. From a capitalization basis, large-cap stocks were the best performers during the period, followed by mid and small-cap stocks. On a style perspective, growth stocks outpaced value stocks across all market capitalizations.

The System's domestic equity component returned 6.9% during the fiscal year, underperforming its benchmark, the Russell 3000 Index Fund, by 0.4 percentage points. Underperformance was due to the impact of cash flow timing and withdrawals. The Russell 3000 Index Fund matched its benchmark during the period. Approximately $205.0 million was redeemed from the domestic equity component during the fiscal year in order to meet the cash needs of the System. As of June 30, 2015, the System's domestic equity assets totaled approximately $334.2 million and represented approximately 14.1% of the System's total investment portfolio, including member loans.

International Equity Overview for the Fiscal Year 2015

International equities, as measured by the MSCI ACW ex-U.S. Index, returned negative 5.3%. Developed international equities returned negative 4.2% as measured by the MSCI EAFE Index. Japan was the strongest performing region during the period. Emerging market equities as represented by the MSCI Emerging Markets Index returned negative 5.1%.

During the fiscal year, the System's international equity component returned negative 5.1%, outperforming its benchmark by 0.2 percentage points. Outperformance was due to modest positive tracking error during the period. Approximately $43.0 million was redeemed from the component during the fiscal year in order to meet the cash needs of the System. At the end of the fiscal year, the component had approximately $116.9 million in assets, representing 4.9% of the System's total investment portfolio, including member loans.

United States Fixed Income Overview for the Fiscal Year 2015

The broad U.S. fixed income market, as measured by the Barclays Aggregate Bond Index, returned 1.9% during the period. The Barclays Intermediate Credit Index, the System's benchmark for its fixed income portfolio, slightly trailed the broader U.S. fixed income market and returned 1.5%. All underlying sectors generated positive returns during the period, with the government bond and mortgage backed securities sectors providing the strongest returns. Longer duration bonds outperformed shorter duration bonds, while higher quality maturities outpaced those of lower quality.

The System's fixed income component gained 1.2% during the one year period ended June 30, 2015, modestly underperforming its benchmark by 0.3 percentage points. Chicago Equity Partners was the only outperforming manager, while Mesirow, Taplin Canida & Habacht, Popular, Santander and Barrow Hanley detracted from results. The SSGA Intermediate Credit Index Fund matched its benchmark during the period. At the end of the fiscal year, fixed income investment portfolio assets totaled approximately $897.9 million, consisting of approximately 37.9% of the System's total investment portfolio, including member loans. Approximately $427.0 million was redeemed from the component during the fiscal year in order to meet the cash needs of the System.

Other Investments and Member Loans Transactions

As of June 30, 2015, the System held approximately $608 million in member loans which represented 25.7% of the total investment portfolio, including loans. Member loan balances as of June 30, 2015 were $11 million lower than a year ago.

At the end of the 2015 Fiscal Year, the System had some exposure to limited partnerships of private equity investments valued at approximately $54 million, which represented 2.3% of the System's total investment portfolio, including member loans.

In order to cover its deficiency of Commonwealth's employee and employer contributions under benefit payments to participants, the System liquidated part of its investment portfolio and transferred approximately $675 million to the Commonwealth in fiscal year 2015.

Funding Status

The System was created by Act No. 447 of May 15, 1951 (Act No. 447) and, since its inception, lacked proper planning. The levels of contributions were relatively low and still remain low in comparison to the level of benefits. In addition, all retirement systems in place before 1951 were merged into the System, which then had to absorb all of their unfunded liabilities. Afterwards, in 1973, the benefits structure was enhanced without the appropriate increase in contribution levels. As more people joined the government labor force and then retired under the new enhanced benefit structure, the gap between the assets available to pay benefits and the actuarial obligation started its steeping course.

In 1990, in an effort to withstand the increase in the unfunded liability, the benefit structure was modified to decrease the benefits and to postpone the retirement age from 55 to 65, in order to provide a more affordable benefit structure. Also, the level of contributions was raised and Act No. 447 was amended to provide that any increase in benefits would require actuarial studies and identification of the financing source.

Ten years later, the continuing increase in the unfunded liability required further action. As a result, the original defined benefit structure was closed to new plan members joining the System on or after January 1, 2000. To provide a retirement alternative, the pension benefit structure was further amended by Act No. 305 of September 24, 1999 (Act No. 305) to provide for a cash balance program, similar to a cash balance plan, to be funded only by participating employees' contributions. That program is known as the Retirement Savings Account Program (System 2000). Under System 2000, the employers' contributions continue at the same level as the original defined benefit structure, but are being used to fund the accrued actuarial liability of the original defined benefit structure that was closed. Also under System 2000, the disability benefits are to be provided through a private insurance long term disability program to those plan members that voluntarily elect to enroll in such program. On September 15, 2004, Act No. 296 was enacted to amend the dispositions of Act No. 305 regarding disbursements and the disability benefits program. After the amendment, any plan member that leaves public service may request that the balance in his/her savings account be transferred to a qualified retirement vehicle such as an individual retirement account or a qualified retirement plan in Puerto Rico. Act No. 296 of 2004 also provides flexibility on the establishment of the disability program; but still, the employees must finance the program.

Presently, the pension plan consists of three different benefit structures, which are administrated according to their specifications in each Act. For all plan members, excluding System 2000 participants, the level of contributions established by law is 8.275% of the employee salary. Under System 2000, employee contributions range from 8.275% to 10% of the salary, as specified by the employee. Under all structures, employers' contributions during the year ended June 30, 2015 were 13.275% of the employee salary.

On February 27, 2007, the System's administration and the Government Development Bank for Puerto Rico (GDB), acting as the System's fiscal agent, presented to the Board of Trustees a financial transaction for the issuance of pension funding bonds. The System authorized the issuance of one or more series of bonds (the Bonds) in order to increase the funds available to pay pension benefits and to reduce the unfunded accrued actuarial pension liability. The System pledged future employers' contributions to the payment of the Bonds, invested the proceeds of the Bonds, and used these investments and the earnings thereon to provide pension benefits to beneficiaries. On January 31, 2008, the System issued the first series of the Bonds, which consisted of approximately $1,589 million aggregate principal amount of Senior Pension Funding Bonds, Series A. On June 2, 2008, the System issued the second of such series of Bonds, which consisted of approximately $1,059 million aggregate principal amount of Senior Pension Funding Bonds, Series B. Finally, on June 30, 2008, the System issued the third and final of such series of Bonds, which consisted of approximately $300 million aggregate principal amount of Senior Pension Funding Bonds, Series C.

Nevertheless, the System's actuarial obligation continues its increasing trend as a result of the continuous increase in the pensioners' population and its longevity and the fact that incoming pensioners have higher salaries and consequently, they are entitled to even higher annuities. Since 1990, there have been no other increases in the employers' or participating employees' contributions to cope with those factors and, therefore, the level of contributions remains low in comparison to the level of pension benefits.

Market events, plus the continuous increase in the actuarial liability have had a negative effect over the employers' net pension liability. Based on the last actuarial valuation at June 30, 2014, the Employers' net pension liability amounted to approximately $33,337 million, with a Plan's fiduciary net deficit position as a percentage of the total pension liability of negative 2.05%. The liability for postemployment healthcare benefits amounted to approximately $1,429 million as of June 30, 2015 and was fully unfunded.

The bottom line is that the capital markets by themselves cannot solve the System's funding problem. In order to improve the System's funding ratio, the Commonwealth enacted Law 116 increasing the employers' contribution rate from 9.275% to 10.275% of employee compensation for the 2011-2012 fiscal year, 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. Other measures taken to improve the System's funding, include 1) improving the collection of late contributions by receiving such contributions directly from the Municipal Revenue Collection Center (known as CRIM by its Spanish acronym) when a municipality fails to send their contributions within 30 days from the due date or from the Department of Treasury of the Commonwealth in the case of public corporations; 2) implementation of Act No. 70 establishing early retirement incentives; 3) revision of the Employee Personal Loan Policy by reducing personal and cultural loan amounts to $5,000 each, from $15,000 and $10,000, respectively; and 4) the receipt of approximately $162.5 million in bonds issued by the Puerto Rico Sales Tax Financing Corporation (known as COFINA by its Spanish acronym).

In 2013, the Commonwealth enacted legislation that reformed the System by, among other measures, reducing benefits, increasing employee contributions, and, in the case of active employees who were entitled to the defined benefits program, replacing most of the defined benefit elements of the system with a defined contribution system. Based on the statutory funding requirements prior to this reform, the annual benefit payments and administrative expenses of the System were significantly larger than the member and employer contributions made to the System. The reform intended to address the Commonwealth's future cash flow needs and "pay-as-you-go" requirements, while recognizing that the System would continue to have a large unfunded actuarial accrued liability and a low funded ratio. As such, the reform was intended to provide enough cash for the System to be able to pay benefits (as amended through the reform) and debt service on the pension obligation bonds, while maintaining projected System gross assets at no less than $1 billion at all times.

In order to achieve this goal, the reform contemplated that the Commonwealth and other participating employers would have to provide additional annual funding above the statutorily prescribed contributions as required by Act No. 32. As a long-term plan, it was recognized that constant monitoring would be required to ensure that the System remained on track to meet the reform's goals. The receipt of the additional uniform contribution of Act No. 32 is critical to the System's ability to make payments as they become due.

On April 4, 2013, the Legislature enacted Act No. 3 which amended Act No. 447, Act No. 1 of 1990 (Act No. 1) and Act No. 305 to establish, among other things, a defined contribution program similar to the System 2000 Program (the Contributory Hybrid Program) to be administered by the Retirement System. All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the Defined Benefit Program and the System 2000 Program, and were rehired on or after July 1, 2013, become members of the Contributory Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous plans will become part of the Contributory Hybrid Program. Act No. 3 froze all retirement benefits accrued through June 30, 2013 under the Defined Benefit Program, and

thereafter, all future benefits will accrue under the defined contribution formula used for the 2000 System Program participants. Ceasing future defined benefit accruals under Act No. 447 and Act No. 1 and converting to a member-funded hybrid plan will result in lower benefit payments as these tiers wind down, and will make all future employer contributions available to pay benefits and bonds payable debt service.

Capital Assets

The System's investment in capital assets as of June 30, 2015 and 2014 amounted to approximately $10.5 million and $11 million, respectively, net of accumulated depreciation. Capital assets include land, building and improvements, construction in progress, and equipment. Building and improvements consist of the facilities in which the System has its operations.

Debt Administration

Long-term debt obligations include the System's senior funding bonds and amounted to approximately $3,105 million and $3,078 million as of June 30, 2015 and 2014, respectively. The System has issued three series of revenue bonds designated as "Senior Pension Funding Bonds", the proceeds of which have been used mainly to increase the funds currently available to pay pension benefits to certain of its beneficiaries and reduce its unfunded actuarial accrued liability. The Bonds are limited, nonrecourse obligations of the System, payable solely from and secured solely by a pledge of employer contributions made after the date of issuance of the first series of Bonds, and from funds held on deposit with the Bank of New York Mellon (the Fiscal Agent). The Bonds are not payable from contributions made to the System by participating employees, or from the assets acquired with the proceeds of the Bonds, or from employer contributions released by the Fiscal Agent to the System after funding of required reserves, or from any other assets of the System. These bonds are currently rated "C" by Moody's Investors Service and "CC" by Standard & Poor's Ratings Services. Refer to note 10 to the basic financial statements for further information regarding the System's long-term obligations. For the suspension of the monthly payments to the trustee of the System's bonds in July 2016, refer to Subsequent Events Section.

Subsequent Events

Subsequent events were evaluated through February 19, 2018, the date the financial statements were available to be issued, to determine if such events should be recognized or disclosed in the 2015 financial statements.

Pre-Retirement Program

On December 8, 2015, the Commonwealth enacted Act No. 211, establishing a voluntary program that provides benefits for pre-retirements to eligible employees, as defined. Act No. 211 applies to eligible employees of agencies and component units whose budgets are funded in whole or in part by the Commonwealth's General Fund, municipalities, component units that operate with their own resources (except those that have their own retirement system), Judiciary Branch, except judges, and the Commonwealth Employees Association. Act No. 211, among other provisions, established that pre-retirement benefits (pre-retirement program) will be provided to eligible employees who started contributing to the System before April 1, 1990 with at least 20 years of service and will consist of biweekly benefits of 60% of the of each employee's salary as of December 31, 2015, as defined. Pursuant to Act No. 211, the employers will continue making the applicable employee and employer contributions to the Retirement System and the employer

contributions to the Federal Social Security and Medicare based on the average salary, as defined, as of December 31, 2015. Individual contributions to the Federal Social Security and Medicare will be deducted from the biweekly benefits to be paid to the participant. These payments will be made until the employee reaches the age of 61 years. Other benefits would include the payment of the participant's healthcare plan during the first two years of the program. Once the participant reaches age of 61 years, the participant is eligible to receive payments from the System and is entitled to a guaranteed minimum pension of 50% of their average salary (except police officers, which would be paid 60%) which related cost will be paid by the employer.

Moratorium Act and Declaration of Fiscal Emergency

On April 6, 2016, the Governor of Puerto Rico signed into law the Puerto Rico Emergency Moratorium and Rehabilitation Act (Act No. 21 or the Moratorium Act). Among other objectives, Act No. 21 allows the Governor to declare – at some point in the future – a moratorium on debt service payments and to stay related creditor remedies for a temporary period for the Commonwealth, the GDB, the Economic Development Bank for Puerto Rico, and certain additional government instrumentalities in Puerto Rico, including the System. The temporary period set forth in Act No. 21 lasts until January 31, 2017, with a possible two-month extension in the Governor's discretion. The provisions regarding the moratorium and stay in respect of any obligations owed by the System require executive action of the Governor to become effective.

On April 8, 2016, the Governor of Puerto Rico issued an Executive Order, EO-2016-010 (the Executive Order), declaring GDB to be in a state of emergency pursuant to Act No. 21. The Executive Order, in accordance with the emergency powers provided for in Act No. 21, implemented a regulatory framework governing GDB's operations and liquidity, including establishing a procedure with respect to governmental withdrawals, payments, and transfer requests in respect of funds held on deposit at GDB and loan disbursements by GDB. The procedures implemented by the Executive Order may have restricted the ability of the System to withdraw any funds held on deposit at GDB or to receive any disbursements on loans granted by GDB during the period of the Executive Order, which is in effect until June 30, 2016. However, while the Executive Order created a stay on the enforcement of certain financial debt obligations of GDB, it did not impose a moratorium on any financial debt obligation of GDB. The Executive Order did not declare an emergency period for the Commonwealth itself, the System or any other entity, other than GDB.

On June 30, 2016, the Governor signed an executive order, EO-2016-030 (EO 30), which among other things, declared the Commonwealth to be in a state of emergency and declared a moratorium on the Commonwealth's obligation to make payments on bonds and notes issued or guaranteed by the Commonwealth. On the same date, the Governor signed an executive order, EO-2016-031 (EO 31), which among other things, declared an emergency period with respect to System and suspended the monthly payments to the trustee of the System's bonds in July 2016. These executive orders, and other executive orders signed by the Governor, also declared an emerging period over various employers of the System.

PROMESA and Related Litigation

The Commonwealth nor its component units, including the System, are eligible to seek relief under Chapter 9 of the United States Bankruptcy Code. However, on June 30, 2016, the Congress of the United States enacted PROMESA, which grants the Commonwealth and its component units access to an orderly mechanism to restructure their debts in exchange for significant federal oversight over the Commonwealth's finances. PROMESA was enacted pursuant to Section 3 of Article IV of the United States Constitution, which provides

the U.S. Congress the power to dispose of and make all needful rules and regulations for territories. In broad terms, PROMESA seeks to provide Puerto Rico with fiscal and economic discipline through the creation of an oversight board (the Oversight Board), relief from creditor lawsuits through the enactment of a temporary stay on litigation, and two alternative methods to adjust unsustainable debt.

First, to ensure fiscal and economic discipline, PROMESA creates the Oversight Board that has plenary authority over Puerto Rico's finances. The Oversight Board's primary function is to provide fiscal oversight through the development and approval of fiscal plans and budgets, and to enforce compliance with those plans and budgets through broad-based powers such as reducing nondebt expenditures and instituting certain hiring freezes. The Oversight Board also has oversight over legislative processes because PROMESA requires the Oversight Board to review new laws and deny their enforcement if they are inconsistent with the approved fiscal plans and budgets. The Oversight Board also has authority to review contracts to ensure compliance with the fiscal plan, and to prevent the execution or enforcement of a contract, rule, executive order or regulation to the extent that it is inconsistent with the approved fiscal plan.

Second, the enactment of PROMESA also operates as a broad-based stay on litigation, applicable to all entities, with respect to claims related to Puerto Rico's financial debt, as well as on enforcement of provisions in contracts that allow for termination and the exercise of remedies based on nonpayment of financial obligations, among other conditions.

Finally, PROMESA contains two methods to adjust Puerto Rico's debts. The first method is a streamlined process to achieve modifications of financial indebtedness with the consent of a supermajority of affected financial creditors. This method has benefits such as potential speed relative to a traditional restructuring through a formal in-court process. The second method is a court-supervised debt-adjustment process, which is modeled on Chapter 9 of the U.S. Bankruptcy Code. This process includes the so-called "cram-down" power, which may provide Puerto Rico with flexibility in debt adjustment, but it also gives the Oversight Board total control over the adjustment process and includes certain provisions designed to protect creditor interests. On August 31, 2016, the U.S. President announced the appointment of seven members to the Oversight Board.

On January 29, 2017, the Commonwealth enacted Act No. 5, the Financial Emergency and Fiscal Responsibility Act of 2017 (Act No. 5 or the Financial Emergency Act). Act No. 5 is intended to facilitate and encourage a voluntary negotiation process under PROMESA between the Governor of Puerto Rico and/or the Puerto Rico Fiscal Agency and Financial Advisory Authority, on behalf of the Commonwealth, and the creditors of the Commonwealth and its instrumentalities. Act No. 5 authorizes the Commonwealth, within the parameters established by PROMESA, to designate certain services necessary for the health, safety and welfare of the residents of Puerto Rico and provided by the Commonwealth and its instrumentalities as "essential services", in accordance with the Constitution of Puerto Rico.

Act No. 5 amended and repealed portions of the Act No. 21, as amended by Act 40-2016 and Act 68-2016 (the Moratorium Act). The Moratorium Act, and executive orders issued by the Governor under the Moratorium Act (the Executive Orders), permitted the Government of Puerto Rico to withhold the timely payment of its obligations at a point in time before the enactment of PROMESA. The enactment of PROMESA has, however, established processes and timelines for the resolution of the Commonwealth's financial emergency that preempt and supersede provisions of the Moratorium Act. Through PROMESA and the establishment of the

Oversight Board, Puerto Rico has been given tools to establish fiscal discipline, restructure its debt, and restore opportunity to the Territory.

On May 1, 2017, the PROMESA Stay expired, permitting the substantial litigation brought by bondholders and other creditors against the Commonwealth and its instrumentalities to resume. As a result, on May 3, 2017, the Oversight Board commenced a Title III case for the Commonwealth by filing a petition for relief under Title III of PROMESA. On May 21, 2017, the Oversight Board commenced Title III cases for the System by filing similar petitions for relief under Title III of PROMESA. On May 11, 2017, United States Supreme Court Chief Justice John Roberts designated United States District Judge Laura Taylor Swain as the presiding judge in the Title III cases. All of the foregoing Title III cases have been consolidated for procedural purposes only and are being jointly administered under Case No. 17-3283-LTS in the United States District Court for the District of Puerto Rico.

Faced with the eventual insolvency of the System and the inability to reach a consensual restructuring agreement with its creditors, on May 21, 2017, the Oversight Board filed a petition for relief for the System pursuant to PROMESA Section 304(a), 48 U.S.C. §2164. As such, the System is a debtor in a proceeding pursuant to PROMESA Title III, 48 U.S.C. 48 U.S.C. §2161, et seq. Pursuant to PROMESA Section 315 (48 U.S.C. §2175), the Oversight Board serves as the debtor's representative in the Title III proceedings.

On June 23, 2017, the Legislature approved the Other Assignments for the Fiscal Year 2017-2018 Joint Resolution, which among other things, ordered the System, JRS, and TRS to liquidate their assets and pass the net proceeds to the Treasury Department of the Commonwealth. On July 20, 2017 the System sold investments amounting to approximately $297 million.

On June 24, 2016, Fitch downgraded from "CC" to "C" the System bonds and placed them on "negative" outlook since default of some kind was deemed inevitable. Fitch cited "the breakdown of negotiations between the Commonwealth and major bondholders, the recent ruling by the U.S. Supreme Court on the Commonwealth's bankruptcy legislation, and the slow process of federal legislation in support of the Commonwealth" as indicators that a debt restructuring, deferral or default has become inevitable. Fitch also indicated that recently released proposals and counterproposals between the Commonwealth and bondholders indicate a distressed debt exchange of some kind was inevitable. Moreover, Fitch expressed that with sizeable debt service payments due on July 1, 2016, the probability of default on the general obligation debt is high. Soon after the missed payments of July 1, 2016 imposed by the Moratorium Act and related executive orders, S&P downgraded to the lowest level of "D" the general obligation bonds of the Commonwealth, while Fitch did the same. On April 6, 2017, Moody's downgraded the System bonds to a level C rating from its previous ratings of Ca and Ca, respectively. On that same date, Moody's reaffirmed the Caa3 rating on the Commonwealth's GO bonds. On June 7, 2017, S&P downgraded COFINA's senior and junior lien bonds to the default rating of D, in response to Title III Judge Swain order not to make the COFINA's scheduled debt service for June 1, July 1 and August 1, 2017; but to maintain such funds in a trust account until the judge decides on the case, further discussed above.

On July 17, 2017, Judge Swain approved agreement a Joint Stipulation reached between the System and certain System bondholders. In the Stipulation, the parties also agreed that the System would make interest payments due on October 1, 2017 from the System's Prepetition Segregated Account (which was created pursuant to a stipulation and order dated January 17, 2017) and that these payments would constitute

adequate protection for the creditors until October 31, 2017 with respect to the automatic stay. In addition, the System and certain bondholders agreed that, the System would seek a declaratory relief challenging the validity, priority, extent and enforceability of the prepetition and post-petition liens and security interests asserted by certain bondholders with respect to bonds issued by the System. The stipulation also calls for payment of approximately $14 million in interest due July 1, 2017 and missed by the System, after commencement of its Title III case. The System will also pay subsequent monthly interest payments until October 1, 2017, or approximately $42 million in total.

On July 21, 2017, pursuant to the Joint Stipulation the Oversight Board, on behalf of the System filed a declaratory relief challenging the validity, priority, extent and enforceability of the prepetition and post-petition liens and security interests asserted by Defendants with respect to bonds issued by the System. The complaint contends that the Defendants' alleged liens and security interests are not perfected because the required UCC financing statements and subsequent amendments were defective. The System also challenges, among other things, the System Bondholders' alleged security interest in post-petition employer contributions. Defendants have asserted counter-claims related to the same issues.

On November 28, 2017, certain System Bondholders (the Puerto Rico Funds) filed a motion to require the System to continue making payments from Prepetition Segregated Account (Created pursuant to the Stipulation) until the court rules on the parties' motion for summary judgment, the Court granted the motion in part. Specifically, the Court ordered the System to transfer the December 2017 and January 2018 interest payments pursuant to the Stipulation, and going forward to transfer the interest payment by the 20th of each month until the earlier of (i) the Court's order on the motion for summary judgment, or (ii) the exhaustion of the funds in the Prepetition Segregated Account.

Enactment of Pay-as-you-go and related litigation under Title III of PROMESA

On April 30, 2016, the Governor issued an Executive Order, EO-2016-014 (EO 14), which declared a payment moratorium with respect to certain obligations of GDB (see related disclosure on the executive action taken imposing a moratorium on GDB's obligations further below under the Component Units section of this note). EO 14 also declared an emergency period with respect to certain obligations of PRIFA that are secured by a letter of credit issued by GDB. Pursuant to EO 14, on May 1, 2016, GDB failed to make a principal payment of approximately $367 million in respect of its notes.

In August 2016 and monthly thereafter, the fiscal agent under the Pension Funding Bond Resolution (the Resolution) of the System's bonds notified to the System that it failed to transfer the requisite employers' contributions on the last business day of each month. The fiscal agent is not seeking to collect or recover any indebtedness from, enforce any judgment against, or obtain possession of, exercise control over, any property of or from, the Commonwealth or any of its instrumentalities, including the System, or exercise any act that is stayed by PROMESA, the Financial Emergency Act, the Moratorium Act, or any Executive Orders related thereto. Consistent with PROMESA, the financial Emergency Act, the Moratorium Act, and any Executive Orders, the fiscal agent is not exercising at this time any rights or remedies against the Commonwealth or any of its instrumentalities, including the System.

On October 30, 2016, the Oversight Board designated Puerto Rico, the System, JRS, TRS, the University of Puerto Rico and twenty-one public corporations of Puerto Rico as "covered entities" subject to oversight under

PROMESA. Section 405(b) of PROMESA also imposes a temporary stay of litigation and claims against Puerto Rico and its instrumentalities for various matters (as the same may be extended under PROMESA, the Enactment Stay), with the hope that the Government of Puerto Rico, on its own behalf and on behalf of its instrumentalities, will enter into voluntary negotiations with its creditors to reorganize and settle the repayment of its debt obligations, while simultaneously embarking on a responsible restructuring of the Government of Puerto Rico and its instrumentalities that realigns the essential services required for the health, safety, and welfare of the residents of Puerto Rico with the timely repayment of its debt obligations. Pursuant to PROMESA, ongoing fiscal planning, budgeting, legislative, and executive action of Puerto Rico, as well as consensual and nonconsensual debt restructurings and the issuance, guarantee, exchange, modification, repurchase, or redemption of debt, is subject to oversight.

The Title III cases were commenced in part due to the May 2 expiration of the PROMESA Stay. Title III of PROMESA incorporates the automatic stay provisions of Bankruptcy Code Section 362 and 922, which are made applicable to the Title III cases pursuant to PROMESA Section 301(a).

On June 27, 2017, the Treasury Department issued Circular Letter No. 1300 46 17 in order to convey to the central government agencies, public corporations and municipalities the new implementation procedures to adopt, effective, July 1, 2017, the new "pay-as-you-go (PayGo)" mechanism for all of the Commonwealth's Retirement Systems. With the start of the fiscal year 2018, employers' contributions, contributions ordered by special laws and the Additional Uniform Contribution were all eliminated and replaced by a monthly PayGo charge that will be collected from the aforementioned government entities to pay retirees. The Commonwealth Retirement Systems will determine and administer the payment amount per retiree that will be charged to each agency, public corporation and municipality. The PayGo charge must be submitted to the Treasury Department before the 15th day of each month along with the individual contributions withheld from active employees. As liquid retirement funds become depleted, the PayGo charge is expected to increase.

In addition to the establishment of the PayGo mechanism, on August 23, 2017, the Commonwealth enacted Act to Guarantee the Payment to Our Pensioners and Establish a New Plan for Defined Contributions for Public Servants (Act 106 2017), which reformed the System, JRS and TRS, so that their active participants would deposit their individual contributions in a new Defined Contribution Plan that will be managed by a private entity. Act 106 2017 creates the legal framework so that the Commonwealth can guarantee payments to pensioners through the PayGo scheme. With this system, the Commonwealth makes pension payments from the General Fund, according to the money available. Approximately $2 billion was allocated for these purposes in the fiscal year 2018 budget. Act 106 2017 also created a Defined Contribution Plan, similar to a 401(k) plan, which guarantees the contributions of public servants, because future benefits will not be paid by the retirement systems. However, under the PayGo system, Puerto Rico's municipalities will remain obligated on their pension obligations.

Act No. 106-2017, among other things, amends Act No. 3 with respect to the System's governance, funding and benefits for active members of the actual program and new hired members. By this act, the System's Board of Trustees was substituted with the Retirement Board of the Government of Puerto Rico (Retirement Board). Pursuant this act the Retirement Board will also be in charge of the governance of the System and the JRS. The Retirement Board has thirteen members; five ex-officio, four representatives of the active participants and four representatives of the public interest.

Act No. 106-2017 also terminates the actual program for the System participants as of June 30, 2017. The members of the actual program and new system members hired since July 1, 2017 will be enrolled in a new defined contributions program that will be selected by the Retirement Board. The accumulated balance on the accounts of the actual program will be transferred to the members account at the new defined contributions program. The System' active members of the defined contributions program will retain their benefits as stated under Act 91 of March 29, 2003.

Act 106-2017 also ordered a suspension of the System' loan programs and ordered a merger of the administrative structures of the retirement systems. At the Retirement Board discretion, the administration of the system benefits might be externalized. The employees of the System that are not retained under the new administrative structure will be transferred to other public agencies in conformity with Act 8 of February 8, 2017.

On July 27, 2017, System Bondholders, initiated a complaint against the Commonwealth, the Oversight Board, the Puerto Rico Fiscal Agency and Financial Advisory Authority, the System, Governor of Puerto Rico and Treasury Secretary. The lawsuit seeks a declaration that that Commonwealth legislation, Joint Resolution 188 and Act 106-2017 (the PayGo Legislation) is void ab initio on the grounds that it violates the automatic stay under the Bankruptcy Code and violates the Takings and Contract Clauses of the U.S. Constitution. The System, represented by the Oversight Board and the Puerto Rico Fiscal Agency and Financial Advisory Authority, moved to dismiss the complaint in full on November 17, 2017. The motion was fully briefed as of January 24, 2018. No hearing has been set on the motion.

On September 20, 2017, Puerto Rico got a direct hit from Hurricane Maria, the strongest hurricane to hit the island in almost a century, the System's building was extremely destroyed by Hurricane Maria causing the relocation of the employees. The System has entered into a lease agreement with the Puerto Rico Public Buildings Authority in order to relocate its offices to a different building and be able to continue operations. This lease agreement has caused the System to negotiate some additional contracts and eliminate others related to auxiliary services. Management of the System is in the process of determining the extent of damages.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Fiduciary Net Position

June 30, 2015

(In thousands)

	Pension	Post employment healthcare benefits	Total
Assets:			
Cash and cash equivalents:			
Deposits with Government Development Bank for Puerto Rico (GDB):			
Unrestricted	$ 93,575	—	93,575
Restricted	34,685	—	34,685
Deposits with GDB held by the Puerto Rico Department of Treasury	11,780	—	11,780
Deposits at commercial banks – restricted	12,580	—	12,580
Money market funds:			
Unrestricted	96,394	—	96,394
Restricted	112,443	—	112,443
U.S. Treasury bill – restricted	1,590	—	1,590
Total cash and cash equivalents	363,047	—	363,047
Receivables, net:			
Employers – net of allowance for uncollectible accounts of $222,015	183,359	—	183,359
Due from Retirement System for the Judiciary of the Commonwealth of Puerto Rico	7,090	—	7,090
Investments sold	108,607	—	108,607
Accrued investment income	5,314	—	5,314
Other	13,747	—	13,747
Total receivables, net	318,117	—	318,117
Collateral from securities lending transactions	80,071	—	80,071
Investments:			
Bonds and notes	794,761	—	794,761
Nonexchange commingled trust funds	467,823	—	467,823
Investments in limited partnerships	54,026	—	54,026
Stocks	1	—	1
Total investments	1,316,611	—	1,316,611
Member loans and interest receivable – net	607,617	—	607,617
Capital assets – net	10,521	—	10,521
Other assets	785	—	785
Total assets	$ 2,696,769	—	2,696,769

(Continued)

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Fiduciary Net Position

June 30, 2015

(In thousands)

	Pension	Post employment healthcare benefits	Total
Liabilities:			
Accounts payable and accrued liabilities	$ 9,329	—	9,329
Bond interest payable	13,876	—	13,876
Payable for investment securities purchased	7,754	—	7,754
Securities lending obligations	80,071	—	80,071
Due to Commonwealth of Puerto Rico	76,613	—	76,613
Escrow funds of mortgage loans and guarantee insurance reserve for member loans	10,212	—	10,212
Bonds payable	3,105,448	—	3,105,448
Other liabilities	61,738	—	61,738
Total liabilities	3,365,041	—	3,365,041
Contingencies (note 13)			
Unrestricted net deficit position	$ (668,272)	—	(668,272)

See accompanying notes to basic financial statements.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT
OF THE COMMONWEALTH OF PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Changes in Fiduciary Net Position

Year ended June 30, 2015

(In thousands)

	Pension	Post employment healthcare benefits	Total
Additions:			
Contributions:			
Employer contributions:			
Basic benefits, net of provision for uncollectible contributions of $131,288	$ 479,911	—	479,911
Special benefits	186,136	97,374	283,510
Member contributions	339,650	—	339,650
Total contributions	1,005,697	97,374	1,103,071
Investment income:			
Net depreciation in fair value of investments	(46,453)	—	(46,453)
Impairment loss on deposits with governmental bank (note 6)	(3,342)	—	(3,342)
Interest	81,603	—	81,603
Dividends	60	—	60
Less investment expense, other than from securities lending	(2,775)	—	(2,775)
Net income from investing, other than from securities lending	29,093	—	29,093
Securities lending income	216	—	216
Less securities lending expenses	(51)	—	(51)
Net income from securities lending	165	—	165
Net investment income	29,258	—	29,258
Other income	28,499	—	28,499
Total additions	1,063,454	97,374	1,160,828
Deductions:			
Benefits paid to participants:			
Annuities	1,337,848	—	1,337,848
Special benefits	186,136	97,374	283,510
Death benefits	17,340	—	17,340
Refunds of contributions	31,351	—	31,351
Interest on bonds payable	194,400	—	194,400
General and administrative	33,623	—	33,623
Other expenses	11,694	—	11,694
Total deductions	1,812,392	97,374	1,909,766
Net decrease in net position	(748,938)	—	(748,938)
Net position (deficit):			
Beginning of year	80,666	—	80,666
End of year	$ (668,272)	—	(668,272)

See accompanying notes to basic financial statements.

(1) Organization

The Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the System) is a trust created by the Legislature of the Commonwealth of Puerto Rico (the Commonwealth) pursuant to Act No. 447 on May 15, 1951 (Act No. 447), as amended, to provide pension and other benefits to retired employees of the Commonwealth, its public corporations and municipalities of Puerto Rico. The System administers a cost-sharing, multi-employer, pension plan (the pension plan). The System also administers post-employment healthcare benefits provided by the Commonwealth to retired plan members (the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities Medical Insurance Plan Contribution – ERS MIPC), an unfunded, cost-sharing, multi-employer defined benefit other postemployment benefit.

The System is considered an integral part of the Commonwealth's financial reporting entity and is included in the Commonwealth's basic financial statements as a pension trust fund. The System, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). Income earned by the System is not subject to Federal and Puerto Rico taxes.

The System's governance is vested in a Board of Trustees (the Board of Trustees), which sets policy and oversees the operations consistent with applicable laws. There are eleven members of the Board of Trustees, as follows: the Puerto Rico Secretary of the Treasury (or her appointee), the President of the Government Development Bank for Puerto Rico (GDB) (or his appointee), the Commissioner of Municipal Affairs (or his appointee) and the Director of the Office of Human Resources of the Commonwealth (or his appointee), as ex officio members; three members appointed to three-year terms by the Governor of the Commonwealth (the Governor), two of whom must be members of the System and one member of the Retirement System for the Judiciary of the Commonwealth of Puerto Rico (JRS), with at least ten years of credited service; and two members who are a pensioners of each system. The other two members are the President of the Federation of Mayors and the President of the Association of Mayors. The Board of Trustees is also responsible for appointing the Administrator of the System.

The System and the JRS, also a component unit of the Commonwealth, are both administered by Puerto Rico Government Employees and Judiciary Retirement Systems Administration (the Administration). The Administration allocated 98.38% of its general and administrative expenses to the System during the year ended June 30, 2015. The methodology used to determine the allocation is based on total employer and participating employees' contributions to the System, divided by the aggregate total of employers' and participating employees' contributions to the System and JRS, combined.

(2) Summary of Significant Accounting Policies

The following are the significant accounting policies followed by the System in the preparation of its financial statements:

(a) Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP) as applicable to governmental organizations. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has legal requirement to provide the contributions. Benefits and refunds are recognized when legally due and payable.

(b) Use of Estimates

The preparation of the basic financial statements requires management to make significant estimates and assumptions relating to the reporting of assets and liabilities and in the disclosures of contingencies to prepare these financial statements in conformity with GAAP. The System's most significant estimates relate to the total pension liability, and the valuation of certain investments. Due to the inherent nature of these estimates, actual results could differ from those estimates.

(c) Cash and Cash Equivalents

Cash equivalents include all highly liquid debt instruments with original maturities of three months or less from the date of acquisition. Cash and cash equivalents consist of money market funds, U.S. Treasury bill, and certificates of deposit in GDB (a component unit of the Commonwealth) and in commercial banks. Restricted cash deposited with GDB consists of payments received from mortgage loan holders in the servicing of loans (escrow accounts), expired checks not claimed by the plan members, restricted for repayments, and temporary amounts to be transferred to the Bank of New York Mellon (trustee) restricted for bond debt service requirements. Restricted money market funds consist of funds held by the trustee to maintain the debt service funds and the sinking funds for the repayment of the System's bonds payable.

(d) Investments

Investments are reported at fair value. The fair value of investments is based on quoted prices, if available. The System has investments in limited partnerships and nonexchange commingled trust funds valued at approximately $54 million and $468 million, respectively, as of June 30, 2015. Fair values of investments in limited partnerships have been estimated in the absence of readily determinable fair values, based on information provided by the underlying fund managers. Nonexchange commingled trust funds are reported at their net asset value (NAV). The NAV includes the market value of the securities in the fund plus any receivables, payables, and accrued fund expenses.

Securities purchases and sales are recorded on a trade-date basis. Realized gains and losses from the sale of securities and unrealized changes in the fair value of outstanding securities are included in net appreciation (depreciation) in fair value of investments. Realized gains and losses are computed as the difference between the proceeds of the sale and the cost of the investment sold, determined by the average cost method. Interest income is recorded as earned on an accrual basis. Dividend income is recorded on the ex-dividend date.

(e) Member Loans

Mortgage, personal, and cultural trip loans to plan members are stated at their outstanding principal balance less an allowance for uncollectible amounts. The maximum amount that was loaned to plan members for mortgage loans is $100,000, and $5,000 for personal, and cultural trip loans.

The System services mortgage loans with aggregate principal balances of approximately $2.5 million at June 30, 2015, related to certain mortgage loans sold to the Federal National Mortgage Association for a fee of 0.25%. The sale contract stipulates that the System must repurchase any loans with payments in arrears over 90 days.

(f) Guarantee Insurance Reserve for Member Loans

Premiums collected and benefits claimed are recorded as additions and deductions, respectively. The guarantee insurance reserve for life insurance on loans to plan members is revised each year and adjusted accordingly based on the annual higher claim amount of a five-year period increased by a management determined percentage.

(g) Capital Assets

Capital assets include building, building improvements, and furniture and equipment. The System defines capital assets as assets with an initial individual cost of $500 or more at the date of acquisition and a useful life equal to or in excess of four years. Capital assets are recorded at historical cost, or their estimated historical cost, if actual historical costs are not available. Donated capital assets are recorded at their estimated fair value at time of donation.

Capital assets are depreciated on the straight-line method over the assets estimated useful life. There is no depreciation recorded for construction in progress. The estimated useful lives of capital assets are as follows:

	Years
Building	50
Buildings improvements	10
Equipment, furniture, fixtures, and vehicles	5–10

(h) Termination Benefits

The System accounts for termination benefits in accordance with GASB Statement No. 47, *Accounting for Termination Benefits*. Pursuant to the provisions of GASB Statement No. 47, the System, as an employer, should recognize a liability and expense for voluntary termination benefits (for example, early retirement incentives) when the offer is accepted and the amount can be estimated. A liability and expense for involuntary termination benefits (for example, severance benefits) should be recognized when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees, and the amount can be estimated.

(i) Recently Issued Accounting Pronouncements

The following new accounting standards has been issued but not yet effective:

- GASB Statement No. 72, *Fair Value Measurement and Application*, addresses accounting and financial reporting issues related to fair value measurements. The new requirements improve the comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB Statement No. 72 provides fair value application guidance and requires a government to make disclosures about its fair value measurements, the level of fair value hierarchy, and valuation techniques. Additional disclosures are required for certain entities that calculate the net asset value per share (or its equivalent). This Statement is effective for fiscal years beginning after June 15, 2015. The System is evaluating the impact of this new statement.
- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Provisions of this statement that are applicable to System include clarification of information that is required to be presented as notes to the required supplementary information. The provisions of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. The System believes this statement will have limited impact on the financial statements.
- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined-contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures*. The scope of this Statement includes OPEB plans-defined benefit and defined contribution-administered through trusts that meet the following criteria:
  - Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.

- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined-benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria. The provisions of this statement are effective for fiscal years beginning after June 15, 2016. The System is evaluating the impact of this new statement.

- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This Statement identifies in the context of the current governmental financial reporting environment the hierarchy of GAAP. The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, *The Hierarchy of GAAP for State and Local Governments*. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2015. The System believes this statement will have limited impact on the financial statements.
- GASB Statement No. 82, *Pension Issues – an Amendment of GASB Statements No 67, No. 68 and No. 73*. This Statement addresses certain issues that have been raised with respect to GASB Statements No. 67, No. 68, and No. 73. The Statement is designed to improve consistency in the application of the pension standards by clarifying or amending related areas of existing guidance. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. Prior to the issuance of this Statement, GASB Statements No. 67 and No. 68 required presentation of covered-employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, and ratios that use that measure, in schedules of required supplementary information. This Statement amends GASB Statements No. 67 and No. 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure. This Statement clarifies that a deviation, as the term is used in Actuarial Standards of Practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standard of Practice is not considered to be in conformity with the requirements of GASB Statement No. 67, GASB Statement No. 68, or GASB Statement No. 73 for the selection of assumptions used in determining the total pension liability and related measures. This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension

plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of GASB Statement No. 67 and as employee contributions for purposes of GASB Statement No. 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits). This Statement is not effective until fiscal year 2017, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The System is evaluating the impact of this new statement.

- GASB Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB). The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2017. The System is evaluating the impact of this new statement.

(3) Going Concern Uncertainty

The System's net pension liability was approximately $33,337.4 million and the fiduciary net position was a deficit of approximately ($668.3 million) as of June 30, 2015. The Commonwealth and the other participating employers have been facing significant fiscal and economic challenges in recent years due to, among other factors, continued budget deficits, a prolonged economic recession, high unemployment, population decline, and high levels of debt and pension obligations which has significantly inhibited their ability to make employer contributions to the plan. Accordingly, the annual benefit payments and administrative expenses paid by the System have been significantly larger than the member and employers' contributions resulting in the System going into a deficit position in fiscal year 2015.

On May 2, 2017, the legal shield granted by the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) protecting the Commonwealth from debt-related lawsuits expired. On May 3, 2017, the Commonwealth filed a petition for protection under Title III of PROMESA to ensure the essential services to the public, the payment of the government payroll and the suppliers.

Faced with the eventual insolvency of the System and the inability to reach a consensual restructuring agreement with the System's creditors, on May 21, 2017, the Governor submitted a letter to the Fiscal Oversight Board created by PROMESA (the Oversight Board) stating that the System desired to effect a plan to adjust its debts under Title III of PROMESA. Also, on May 21, 2017, the Oversight Board filed a petition for the System in the United States District Court for the District of Puerto Rico, commencing a Title III case for the System. On June 15, 2017, the United States Trustee appointed an Official Committee of Retired Employees in the Commonwealth's Title III cases.

As further described in note 14, the System sold investments in July 2017, amounting to approximately $297 million.

Management's Conclusion on Going Concern Consideration

Based on the fiscal and financial difficulties of both the Commonwealth and the System discussed above, management believes there is substantial doubt about the ability of the System to continue as a going concern.

Management's Remediation Plan

In response to the current and contemplated financial difficulties facing the Commonwealth and the System, and as further described in note 14, on June 27, 2017, the Treasury Department issued Circular Letter No. 1300-46-17 in order to convey to the central government agencies, public corporations and municipalities the new implementation procedures to adopt, effective, July 1, 2017, the new "pay-as-you-go" (PayGo) mechanism for all of the Commonwealth Retirement Systems. With the start of the fiscal year 2018, employers' contributions, contributions ordered by special laws, and the Additional Uniform Contribution were all eliminated and replaced by a monthly PayGo charge that will be collected from the aforementioned government entities to pay retirees. The System will determine and administer the payment amount per retiree that will be charged to each agency, public corporation and municipality. As liquid retirement funds become depleted, the PayGo charge is expected to increase.

In addition to the establishment of the PayGo mechanism, on August 23, 2017, the Governor signed into law the Act to Guarantee the Payment to Our Pensioners and Establish a New Plan for Defined Contributions for Public Servants (Act 106-2017), which reformed the Commonwealth Retirement Systems so that their active participants would deposit their individual contributions in a new Defined Contribution Plan, that will be managed by a private entity. Act 106-2017 creates the legal framework so that the Government can guarantee payments to pensioners through the PayGo scheme. With this system, the Government makes pension payments from the general fund, according to the money available. Act 106-2017 also created a Defined Contribution Plan under which future benefits will not accumulate. However, under the PayGo system, Puerto Rico's municipalities will remain obligated on their pension obligations.

The System is also suspending the loans program, and reducing general and administrative expenses mostly through employee attrition due to normal retirement and reduction in professional services contracts.

(4) Plan Description

Pension Benefits

The System administers different benefit structures pursuant to Act No. 447, as amended, including a cost-sharing, multi-employer, defined benefit program, a defined contribution program (System 2000 program) and a contributory hybrid program. Benefit provisions vary depending on member's date of hire. Substantially all full-time employees of the Commonwealth and its instrumentalities (73 Commonwealth agencies, 78 municipalities, and 55 public corporations, including the System) are covered by the System. Membership is mandatory for all regular, appointed, and temporary employees of the Commonwealth at the date of employment. Membership is optional for the Governor of the Commonwealth, Commonwealth secretaries, head of public agencies and instrumentalities, among others.

At July 1, 2014, membership of the System consisted of the following:

Retirees and beneficiaries currently receiving benefits	$	110,922
Current participating employees – defined benefit		55,735
Current participating employees – System 2000 and Act No. 3		64,055
Disabled members, receiving benefits		15,820
Total membership	$	246,532

The benefits provided to members of the System are established by Commonwealth law and may be amended only by the Legislature with the Governor's approval. Act No. 3, in conjunction with other recent funding and design changes, provided for a comprehensive reform of the System. This summary details the provisions under Act No. 3.

Certain provisions are different for the three groups of members who entered the System prior to July 1, 2013 as described below:

- Members of Act No. 447 are generally those members hired before April 1, 1990.
- Members of Act No. 1 are generally those members hired on or after April 1, 1990 and on or before December 31, 1999.
- Members of Act No. 305 (or System 2000) are generally those members hired on or after January 1, 2000 and on or before June 30, 2013.

All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the defined benefit program and the System 2000 program, and were rehired on or after July 1, 2013, become members of the Contributory Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous programs became part of the Contributory Hybrid Program on July 1, 2013.

(Continued)

Each member has a Nonforfeitable right to the value of his/her account. Members have three options to invest their contributions. Investment income is credited to the member's account semiannually. The Commonwealth does not guarantee benefits at retirement age.

The assets of the defined benefit program, the defined contribution program and the Contributory Hybrid Program are pooled and invested by the System. Future benefit payments will be paid from the same pool of assets.

This summary of plan provisions is intended to describe the essential features of the plan. All eligibility requirements and benefit amounts shall be determined in strict accordance with the plan document itself.

(a) Service Retirements

(1) *Eligibility for Act No. 447 Members* – Act No. 447 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 447 members could retire upon (1) attainment of age 55 with 25 years of credited service, (2) attainment of age 58 with 10 years of credited service, (3) any age with 30 years of credited service, (4) for Public Officers in High Risk Positions (the Commonwealth Police and Firefighter Corps, the Municipal Police and Firefighter Corps and the Custody Office Corps), attainment of age 50 with 25 years of credited service, and (5), for Mayors of municipalities, attainment of age 50 with 8 years of credited service as a Mayor. In addition, Act No. 447 members who attained 30 years of credited service by December 31, 2013 are eligible to retire at any time.

Act No. 447 members who were not eligible to retire as of June 30, 2013 and did not attain 30 years of credited service by December 31, 2013 are eligible to retire upon attainment of the retirement eligibility age shown in the table below with 10 years of credited service.

Date of birth	Attained age as of June 30, 2013	Retirement eligibility age
July 1, 1957 or later	55 or less	61
July 1, 1956 to June 30, 1957	56	60
Before July 1, 1956	57 and up	59

In addition to the requirements in the table above, Act No. 447 Public Officers in High Risk Positions who were not eligible to retire as of June 30, 2013 and did not attain 30 years of credited service by December 31, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

(2) *Eligibility for Act No. 1 Members* – Act No. 1 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 1 members could retire upon (1) attainment of age 55 with 25 years of credited service, (2) attainment of age 65 with 10 years of credited service, (3) for Public Officers in High Risk Positions, any age with 30 years of

credited service, and (4) for Mayors, attainment of age 50 with 8 years of credited service as a Mayor.

Act No. 1 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 65 with 10 years of credited service. In addition, Act No. 1 Public Officers in High Risk Positions who were not eligible to retire as of June 30, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

(3) *Eligibility for System 2000 Members* – System 2000 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, System 2000 members could retire upon attainment of age 55 for Public Officers in High Risk Positions and attainment of age 60 otherwise.

System 2000 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 55 for Public Officers in High Risk Positions and upon attainment of the retirement eligibility age shown in the table below otherwise.

Date of birth	Attained age as of June 30, 2013	Retirement eligibility age
July 1, 1957 or later	55 or less	65
July 1, 1956 to June 30, 1957	56	64
July 1, 1955 to June 30, 1956	57	63
July 1, 1954 to June 30, 1955	58	62
Before July 1, 1954	59 and up	61

(4) *Eligibility for Members Hired after June 30, 2013* – Attainment of age 58 if a Public Officer in a High Risk Position and attainment of age 67 otherwise.

(b) Service Retirement Annuity Benefits

An annuity is payable for the lifetime of the member equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement, plus, for Act No. 447 and Act No. 1 members, the accrued benefit determined as of June 30, 2013. If the balance in the hybrid contribution account is $10,000 or less, it shall be paid as a lump sum instead of as an annuity.

(1) *Accrued Benefit as of June 30, 2013 for Act No. 447 Members* – The accrued benefit as of June 30, 2013 shall be determined based on the average compensation, as defined, for Act No. 447 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Act No. 447 Mayors, the highest compensation, as defined, as a Mayor is determined as of June 30, 2013.

If the Act No. 447 member had at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting to coordinate with social security (the Coordination Plan), the benefit is re-calculated at the Social Security Retirement Age (SSRA), as defined, as 1.5% of average compensation up to $6,600 multiplied by years of credited service, up to 30 years, plus 65% (75% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600.

If the Act No. 447 member had less than 30 years of credited service as of June 30, 2013, and attains 30 years of credited service by December 31, 2013, the accrued benefit equals 55% of average compensation if the member was under age 55 as of June 30, 2013 or 60% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit is re-calculated at SSRA as 1.5% of average compensation up to $6,600 multiplied by years of credited service, up to 30 years, plus 55% (60% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600. Member contributions received from Act No. 447 members eligible for this transitory benefit during the period beginning July 1, 2013 and ending upon the attainment of 30 years of credited service are considered pre-July 1, 2013 contributions; the contributions to the hybrid contribution account begin after the member attains 30 years of credited service.

If the Act No. 447 member had less than 30 years of credited service as of December 31, 2013, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service up to 20 years, plus 2% of average compensation multiplied by years of credited service in excess of 20 years. Maximum benefit is 75% of average compensation. Except for Commonwealth Police and Commonwealth Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58. For participants selecting the Coordination Plan, the basic benefit is re-calculated at SSRA as 1% of average compensation up to $6,600 multiplied by years of credited service up to 20 years, plus 1.5% of average compensation up to $6,600 multiplied by years of credited service in excess of 20 years, plus 1.5% of average compensation in excess of $6,600 multiplied by years of credited service up to 20 years, plus 2.0% of average compensation in excess of $6,600 multiplied by years of credited service in excess of 20 years. Except for Police and Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58.

For Act No. 447 Mayors with at least 8 years of credited service as a mayor, the accrued benefit will not be less than 5% of highest compensation, as defined, as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

(2) *Accrued Benefit as of June 30, 2013 for Act No. 1 Members* – The accrued benefit as of June 30, 2013 shall be determined based on the average compensation for Act No. 1 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Act No. 1 Mayors, the highest compensation as a Mayor is determined as of June 30, 2013.

If the Act No. 1 member is a police officer or firefighter with at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013.

For all other Act No. 1 members, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service. The benefit is actuarially reduced for each year payment commences prior to age 65.

For Act No. 1 Mayors with at least 8 years of credited service as a mayor, the accrued benefit will not be less than 5% of highest compensation as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

(c) Compulsory Retirement

All Act No. 447 and Act No. 1 Public Officers in High Risk Positions must retire upon attainment of age 58 and 30 years of credited service. A two year extension may be requested by the member from the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps, or supervising authority as applicable.

(d) Termination Benefits

(1) Lump Sum Withdrawal

Eligibility: A Member is eligible upon termination of service prior to 5 years of service or if the balance in the hybrid contribution account is $10,000 or less.

Benefit: The benefit equals a lump sum payment of the balance in the hybrid contribution account as of the date of the permanent separation of service.

(2) Deferred Retirement

Eligibility: A Member is eligible upon termination of service with 5 or more years of service (10 years of credited service for Act No. 447 and Act No. 1 members) prior to the applicable retirement eligibility, provided the member has not taken a lump sum withdrawal of the accumulated contributions and the hybrid contribution account.

Benefit: An annuity payable for the lifetime of the member commencing at the applicable retirement eligibility age is equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement, plus, for Act No. 447 and Act No. 1 members, the accrued benefit determined as of June 30, 2013.

(e) Death Benefits

(1) Pre-Retirement Death Benefit

Eligibility: Any current nonretired member is eligible.

Benefit: A refund of the hybrid contribution account, plus the accumulated contributions for Act No. 447 and Act No. 1 members.

(2) High-Risk Death Benefit under Act No. 127

Eligibility: Police, firefighters, and other employees in specified high-risk positions who die in the line of work due to reasons specified in Act No. 127 of 1958, as amended.

Spouse's Benefit: 50% of the participant's compensation at date of death, payable as an annuity until death or remarriage.

Children's Benefit: 50% of the participant's compensation at date of death, payable as an annuity, and allocated pro-rata among eligible children. The annuity is payable for life for a disabled child, until age 18 for a nondisabled child not pursuing studies, and until age 25 for a nondisabled child who is pursuing studies.

Benefit if No Spouse or Children: The parents of the member shall each receive 50% of the participant's compensation at date of death, payable as an annuity for life.

Post-death Increases: Effective July 1, 1996 and subsequently every three years, the above death benefits are increased by 3% provided that the beneficiary(ies) had been receiving payments for at least three years.

The cost of these benefits is paid by the Commonwealth's General Fund.

(3) Post-Retirement Death Benefit for Members who Retired prior to July 1, 2013

Eligibility: Any retiree or disabled member receiving a monthly benefit who has not elected a reversionary annuity and whose benefits commenced prior to July 1, 2013.

Benefit: The benefit is as follows (Law No. 105, as amended by Law No. 4):

(i) For those married or with dependent children at the time of death, the annual income to a widow, or widower or dependent children is equal to 60% (50% if in the Coordination Plan – 30% prior to January 1, 2004) of the retirement benefit payable for life for a surviving spouse and/or disabled children and payable until age 18 (age 25 if pursuing studies) for nondisabled children. If in the Coordination Plan, the benefit to the surviving spouse does not begin until the spouse's attainment of age 60 and the surviving spouse must have been married to the member for at least 10 years to be eligible for this benefit. The increase in the percentage from 30% to 50% if the Coordination Plan is paid by the Commonwealth's General Fund for former government employees or by the public enterprise or municipality for their former employees.

(ii) The benefit, when there is no relation as stated above, is equal to the remaining balance of accumulated contributions at the time of retirement after the deduction of lifetime annual income paid and is payable to a beneficiary or to the member's estate. In no case shall the benefit be less than $1,000. Either the Commonwealth's General Fund for former government employees or the public enterprise or municipality for their former employees pays the difference, up to $250, between (1) the accumulated contributions less the lifetime annual income paid and (2) $1,000. The System pays for the rest.

(4) Post-Retirement Death Benefit for Members who Retired after June 30, 2013

Eligibility: Any retiree or disabled member who began receiving a monthly benefit after June 30, 2013.

Benefit: If the member elected at the time of retirement to transfer a portion of the annuity to a beneficiary by selecting an actuarially equivalent optional form of payment, the benefit is the applicable survivor benefit selected.

For all members, the excess, if any, of the hybrid contribution account, plus the accumulated contributions for Act No. 447 and Act No. 1 members, at the time of retirement over the total annuity payments paid to the member and any beneficiary per the terms of the optional form of payment shall be payable to a beneficiary or the member's estate.

(5) Beneficiaries receiving occupational death benefits as of June 30, 2013 continue to be eligible to receive such benefits.

(f) Disability Benefits

(1) Disability

Eligibility: All members are eligible upon the occurrence of disability.

Benefit: The balance of the hybrid contribution account payable as lump sum distribution, an immediate annuity or a deferred annuity at the election of the participant. Act No. 447 and Act No. 1 members remain eligible to receive the accrued benefit as of June 30, 2013 commencing at the applicable retirement eligibility age.

(2) High Risk Disability under Act No. 127

Eligibility: Police, firefighters, and other employees in specified high-risk positions who are disabled in the line of work due to reasons specified in Act No. 127 of 1958 (as amended).

Benefit: 80% (100% for Act No. 447 members) of compensation as of date of disability, payable as an annuity. If the member dies while still disabled, this annuity benefit continues to his beneficiaries. Beneficiaries include the surviving spouse and/or disabled children (for life), nondisabled children until age 18 (age 25 if pursuing studies), and the parents if no other beneficiaries. Effective July 1, 1996 and subsequently every three years, the disability benefit is increased by 3% provided that the member (or beneficiary) had been receiving payments for at least three years (Act No. 127 of 1958, as amended). The cost of these benefits is paid by the Commonwealth's General Fund.

(3) Members who qualified for occupational or nonoccupational disability benefits as of June 30, 2013 continue to be eligible to receive such benefits.

(g) Special Benefits

(1) Minimum Benefits

(i) Past Ad hoc Increases

The Legislature, from time to time, increases pensions for certain retirees as described in Act No. 124 approved on June 8, 1973 and Act No. 23 approved on September 23, 1983. The benefits are paid 50% by the Commonwealth's General Fund and 50% by the System.

(ii) Minimum Benefit for Members who Retired before July 1, 2013 (Act No. 156 of 2003, Act No. 35 of 2007, and Act No. 3)

The minimum monthly lifetime income for members who retired or become disabled before July 1, 2013 is $500 per month effective July 1, 2013 ($400 per month effective July 1, 2007 and $300 per month up to June 30, 2007). The increase in the minimum monthly benefit from $200 per month to $300 per month is paid by the Commonwealth's General Fund for former government and certain public corporations without their own treasuries employees or by certain public corporations with their own treasuries or municipalities for their former employees. The increase in the minimum monthly benefit from $300 per month to $400 per month is to be paid by the System for former government and certain public corporations without their own treasuries employees or by certain public corporations with their own treasuries or municipalities for their former employees.

(iii) Coordination Plan Minimum Benefit

A minimum monthly benefit is payable upon attainment of SSRA such that the benefit, when added to the Social Security Benefit, is not less than the benefit payable prior to SSRA.

(2) Cost-of-Living Adjustments (COLA) to Pension Benefits

The Legislature, from time to time, increases pensions by 3% for retired and disabled members. Beneficiaries are not entitled to COLAs granted after the retiree's death. The first increase was granted by Act No. 10 of 1992. Subsequent 3% increases have been granted every third year since 1992, with the latest 3% increase established on April 24, 2007 and effective July 1, 2007 (retroactive to January 1, 2007) for retired and disabled members that were receiving a monthly benefit on or before January 1, 2004. In addition, effective July 1, 2008, any retired or disabled member that was receiving a monthly annuity on or before January 1, 2004 less than $1,250 per month received an increase of up to 3% without exceeding the limit of $1,250 per month. The COLAs granted in 1992 to all retirees and in 1998 to retirees who are former government or municipal employees shall be paid by the System. All other COLAs granted in 1995 and later shall be paid by the Commonwealth's General Fund for former government and certain public corporations without their own treasuries employees or by certain public corporations with their own treasuries or municipalities for their former employees.

(3) Special "Bonus" Benefits

(i) Christmas Bonus (Act No. 144, as Amended by Act No. 3)

An annual bonus of $200 for each retiree, beneficiary, and disabled member paid in December provided the member retired prior to July 1, 2013. This benefit is paid from the supplemental contributions received from the Commonwealth's General Fund for former government and certain public corporations without their own treasuries employees or by certain public corporations with their own treasuries or municipalities for their former employees.

(ii) Medication Bonus (Act No. 155, as Amended by Act No. 3)

An annual bonus of $100 for each retiree, beneficiary, and disabled member to cover health costs paid in July provided the member retired prior to July 1, 2013. Evidence of coverage is not required. The amount is prorated if there are multiple beneficiaries. This benefit is paid from the supplemental contributions received from the Commonwealth's General Fund for former government and certain public corporations without their own treasuries employees or by certain public corporations with their own treasuries or municipalities for their former employees.

(h) Contributions

(1) Member Contributions

Effective July 1, 2013, contributions by members are 10% of compensation. However, for Act No. 447 members who selected the Coordination Plan, the member contributions are 7% of compensation up to $6,600 plus 10% of compensation in excess of $6,600 during the 2013-2014 fiscal year and 8.5% of compensation up to $6,600 plus 10% of compensation in excess of $6,600 during the 2014-2015 fiscal year. Members may voluntarily make additional contributions to their hybrid contribution account.

Prior to July 1, 2013, contributions by Act No. 447 members selecting the Coordination Plan were 5.775% of compensation up to $6,600 plus 8.275% of compensation in excess of $6,600. Contributions by all other members were 8.275% of compensation. System 2000 members may also have made voluntary contributions of up to 1.725% of compensation prior to July 1, 2013.

(2) Employer Contributions (Article 2-116, as Amended by Law No. 116 of 2010 and Act No. 3)

Prior to July 1, 2011, employer contributions were 9.275% of compensation. Effective July 1, 2011, employer contributions are 10.275% of compensation. For the next four fiscal years effective July 1, employer contributions will increase annually by 1% of compensation. For the five fiscal years thereafter, employer contributions will increase annually by 1.25% of compensation, reaching an employer contribution rate of 20.525% of compensation effective July 1, 2020.

(3) Supplemental Contributions from the Commonwealth's General Fund, Certain Public Corporations, and Municipalities (Act No. 3)

Effective July 1, 2013, the System will receive a supplemental contribution of $2,000 each fiscal year for each pensioner (including beneficiaries receiving survivor benefits) who was previously benefitting as an Act No. 447 or Act No. 1 member while an active employee. This supplemental contribution will be paid by the Commonwealth's General Fund for former government and certain public corporations without their own treasuries employees or by certain public corporations with their own treasuries or municipalities for their former employees.

(4) Additional Uniform Contribution (Act No. 32, as Amended)

The additional uniform contribution will be certified by the external actuary of the System each fiscal year from 2014-2015 through 2032-2033 as necessary to avoid having the projected gross assets of the System, during any subsequent fiscal year, to fall below $1 billion. The additional uniform contribution is to be paid by the Commonwealth's General Fund, public corporations with their own treasuries, and municipalities. The additional uniform contribution determined for fiscal years 2014, 2015 and 2016 was $120 million. The additional uniform contribution determined for fiscal year 2016-2017 is $596 million, payable at the end of the fiscal year.

(i) Early Retirement Programs

The Puerto Rico Environmental Quality Board (EQB) implemented an early retirement program for its employees under the Law 224 Act No. 7, dated August 9, 2008. EQB has already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the System in four installments on each July 31 starting in 2009 through 2012. The EQB was at default on the retirement plan payment, so they requested a new payment plan. The System's Board of Trustees approved a payment plan for the debt balance due of the retirement program for 24 months starting in March 2014.

On July 2, 2010, the Commonwealth enacted Act No. 70 establishing a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined. Act No. 70 of 2010 (Act No. 70) also established that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of creditable services and will consist of monthly benefits ranging from 37.5% to 50% of each employees' monthly salary. Benefits under this program will be paid by the Commonwealth's the General Fund and by the public corporations, covering their respective employees until the plan member reaches the later of age 55 for members under Act No. 447 or age 65 for members under Act No. 1, or the date the plan member would have completed 30 years of service had the member continued employment. In addition, the public corporations will also be required to continue making the required employee and employer contributions to the System. The Commonwealth's General Fund will be required to continue making its required employer contributions. The System will be responsible for benefit payments afterwards. As of June 30, 2015, the System recorded a liability of approximately $18 million for its responsibility as an employer under Act No. 70.

The contribution requirement to the System is established by law and is not actuarially determined. The special benefits contributions of approximately $186 million in 2015 mainly represent contributions from the Commonwealth's General Fund, public corporations and municipalities for the special benefits identified above granted by special laws. The funding of the special benefits is provided to the System through legislative appropriations each July 1 by the Commonwealth's General Fund for former government and certain public corporations without their own treasuries employees, and by certain public corporations with their own treasuries and municipalities for their former employees. The legislative appropriations are considered estimates of the payments to be made by the System for the special benefits. Deficiencies in legislative appropriations are covered by the System's own funds until recovered through future legislative appropriations. Any surplus of legislative appropriations collected over special benefits paid is combined with the assets held in trust for the payment of other pension benefits.

(j) Other Postemployment Benefits (OPEB) – Healthcare Benefits

ERS MIPC is a cost-sharing, multi-employer defined benefit other postemployment benefit plan sponsored by the Commonwealth. ERS MIPC covers a payment of up to $100 per month to the eligible medical insurance plan selected by the member provided the member retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3). Substantially all fulltime employees of the Commonwealth's primary government, and certain municipalities of Puerto Rico and certain component units of the Commonwealth not having their own postemployment benefit plan, were covered by the OPEB.

Commonwealth employees became members upon their date of employment. Plan members were eligible for benefits upon reaching the pension benefits retirement ages.

At July 1, 2014, the membership consisted of the following:

Membership:		
Retired members	$	97,056
Disabled members		15,820
Total membership	$	112,876

The contribution requirement of ERS MIPC is established by Act No. 95 approved on June 29, 1963. This OPEB plan is financed by the Commonwealth on a pay-as-you-go basis. There is no contribution requirement from the plan member during active employment. Retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution. As a result, these OPEB are 100% unfunded. During the year ended June 30, 2015, OPEB contributions amounted to $97 million.

The funding of the OPEB benefits is provided to the System through legislative appropriations each July 1 by the Commonwealth's General Fund for former government and certain public corporations without their own treasuries employees, and by certain public corporations with their own treasuries and municipalities for their former employees. The legislative appropriations are considered estimates of the payments to be made by the System for the healthcare benefits throughout the year.

(5) Net Pension Liability

The components of the net pension liability as of June 30, 2015 were as follows (dollars in thousands):

Total pension liability	$	32,669,162
Plan's fiduciary net deficit		668,272
Net pension liability	$	33,337,434
Plan's fiduciary net deficit as a percentage of the total pension liability		2.05 %

(a) Actuarial Methods and Assumptions

The census data collection date is at beginning-of-year. The liability results as of June 30, 2015 are based on projecting the System obligations determined as of the census data collection date of July 1, 2014 for one year, using roll-forward methods and assuming no liability gains or losses.

The actuarial valuation used the following actuarial assumptions:

Inflation	2.50%
Municipal bond index	3.80%, as per Bond Buyer General Obligation 20-Bond Municipal Bond Index
Projected salary increases	3.00% per year. No compensation increases are assumed until July 1, 2017 as a result of Act No. 66 and the current general economy.
Mortality	Pre-retirement Mortality: For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2015 from the 2006 base year, and projected forward using MP-2015 on generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2015 from the 2006 base year, and projected forward using MP-2015 on generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127. Post-retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2015 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date. Post-retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2015 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Most other demographic assumptions used in the July 1, 2014 valuation were based on the results of an actuarial experience study using data as of June 30, 2003, June 30, 2005 and June 30, 2007.

(b) Long-Term Expected Rate of Return

The long-term expected rate of return on pension benefits investments was determined in accordance with the asset allocation of the portfolio that was adopted by the System's Board of Trustees during December 2013 and the actuary's capital market assumptions as of June 30, 2015. In addition, the assumption reflects that loans to members comprise approximately 20% of the portfolio and, have an approximate return of 9.1% with no volatility. The long-term expected rate of return on pension benefits investments of 6.55% as of June 30, 2015 equal to the highest debt service of the senior pension funding bonds payable which range from 5.85% per year to 6.55% per year.

The pension plan's policy in regard to allocation of invested assets is established and may be amended by the System's Board of Trustees. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a positive impact on the System's financial condition for the benefits provided through the pension programs. The following asset allocation policy as of June 30, 2015 was adopted by the System's Board of Trustees:

	Target allocation	Long-term expected rate of return
Asset class:		
Domestic equity	25 %	6.4 %
International equity	10	6.7
Fixed income	64	6.3
Cash	1	3.0
Total	100 %	

The long-term expected rate of return on pension benefits investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

(c) Discount Rate

The asset basis for the date of depletion projection is the System's fiduciary net position (the gross assets plus deferred outflows of resources less the gross liabilities, including the senior pension funding bonds payable, plus deferred inflows of resources). On this basis, the System's fiduciary net position was exhausted in the fiscal year 2015.

The System's fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the tax free municipal bond index (Bond Buyer General Obligation 20-Bond Municipal Bond Index) was applied to all periods of projected benefits payments to determine the total pension liability. The discount rate was 3.80% as of June 30, 2015.

The date of depletion projection of the actuarial report does not include any amounts from the additional uniform contribution required by Act No. 32 because of actual fiscal and budgetary financial difficulties, continued budget deficits and liquidity risks of the Commonwealth and the municipalities, and in the event that their financial condition do not improve in the near term.

The July 1, 2014, actuarial valuation reflects an increase of $3,198 million in the net pension liability as a result of the changes in assumptions of $2,781 million, mainly related to the decrease in the discount rate as required by GASB Statement No. 67 from 4.29% in fiscal year 2014 to 3.80% in fiscal year 2015 and the Plan Fiduciary Net Deficit Position of approximately $668 million as of June 30, 2015, which effects were offset by a decrease of $464 million in the total pension liability as a result differences between expected and actual experience.

(d) Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability calculated using the discount rate of 3.80%, as well as what it would be if it were calculated using a discount rate of 1%-point lower (2.80%) or 1% point higher (4.80%) than the current rate (dollars in thousands):

		1% Decrease (2.80%)	Current discount rate (3.80%)	1% Increase (4.80%)
Net pension liability	$	38,004,512	33,337,434	29,513,508

(6) Cash and Cash Equivalents, Investments and Securities Lending Transactions

Cash and Cash Equivalents

Cash and cash equivalents as of June 30, 2015 consisted of the following (in thousands):

		Carrying amount	Depository bank balance	Amount uninsured and uncollateralized
Deposits with GDB	$	128,260	133,371	133,371
Deposits with GDB held by the Puerto Rico Department of Treasury		11,780	—	—
Deposits with Puerto Rico commercial banks		12,580	12,580	—
Money market funds		208,837	N/A	N/A
U.S. Treasury bill		1,590	N/A	—
Total	$	363,047	145,951	133,371

N/A= Not applicable.

Custodial credit risk for deposits is the risk that, in an event of the failure of a depository financial institution, the System may not be able to recover deposits or collateral securities that are in the possession of an outside party. The Commonwealth requires that public funds deposited in Puerto Rico commercial banks be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth. Deposits with GDB and with non-Puerto Rico commercial banks and money market funds are uninsured and uncollateralized, as these entities are exempt from compliance with the collateralization requirement.

Restricted cash and cash equivalent amounted to approximately $161.3 million as of June 30, 2015 and consisted of the following:

- Approximately $121.7 million of funds are restricted for the debt service of the bonds payable, of which approximately $112.4 million of funds were deposited at trustee in money market funds and approximately $9.2 million of funds were deposited at GDB.
- Approximately $38.0 million of funds are restricted for repayments of mortgage and personal loans administrated by the mortgage servicers and the System, for expired checks not claim by the plan members, and other purposes, of which approximately $25.5 million of funds for were deposited at GDB and approximately $12.6 million were deposited at Puerto Rico commercial banks.

Impairment Loss on Deposits with GDB

Management concluded that the information available prior to the issuance of the System's financial statements for the year ended June 30, 2015 indicates that it is probable that an impairment loss on the System's deposits held with GDB exists as of June 30, 2015.

The Commonwealth and its public entities have not been able to repay their loans from GDB, which has significantly affected GDB's liquidity and ability to repay its obligations.

GDB faces significant risks and uncertainties and it currently does not have sufficient liquid financial resources to meet obligations when they come due. Pursuant to enacted legislation in April 2016, as explained in note 14, the Governor of the Commonwealth ordered the suspension of loan disbursements by GDB, imposed restrictions on the withdrawal and transfer of deposits from GDB, and imposed a moratorium on debt obligations of GDB, among other measures.

Because of the nonpayment by the Commonwealth of the appropriation to GDB and GDB's inability to restructure its debt considering the broader fiscal crisis faced by the Commonwealth, GDB is in default of its debt obligations since May 1, 2016. In April 2016, the Governor imposed on GDB emergency operational restrictions and debt moratorium.

Due to the conditions and events described above, GDB's management believes substantial doubt exists as the GDB's ability to continue as a going concern.

On April 28, 2017, the Oversight Board approved the liquidation proposal included in the GDB's fiscal plan, that calls for an orderly winding down its operations over ten years.

Based on an evaluation of the availability and recoverability of such funds, an impairment loss on these deposits has been recorded on the System's financial statements as follows (expressed in thousands):

	Deposits held with GDB at June 30, 2015		
	Carrying value before impairment loss	Impairment loss	Carrying value
Type of deposit:			
Interest bearing accounts	$ 122,016	(3,342)	118,674
Time deposit	21,366	—	21,366
Total	$ 143,382	(3,342)	140,040

In addition, management estimates that additional impairment losses on deposits held with GDB of approximately $18 million and $9 million will be recorded in the System's financial statements for the years ended June 30, 2016 and 2017, respectively, corresponding to new certificates of deposit opened during such fiscal years for a total impairment loss on deposits held with the GDB of approximately $30 million as of April 30, 2017. The realizable balance of the deposits held with the GDB as of June 30, 2015 was determined based on the corresponding actual collections received from the GDB on such deposits after the June 30, 2015 year end.

Investments

For the year ended June 30, 2015, the annual money-weighted rate of return on investments, net of investment expenses, was 0.24%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

The System's investments are exposed to custodial credit risk, credit risk, concentration of credit risk, foreign currency risk, and interest rate risk. Following is a description of these risks as of June 30, 2015:

(a) Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the System may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. At June 30, 2015, securities investments were registered in the name of the System and were held in the possession of the System's custodian banks, except for securities lent. Securities lent are not exposed to custodial credit risk. Cash collateral received from securities lending transactions invested in short-term investments is exposed to custodial credit risk.

(b) Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. All fixed-income securities at the time of purchase must be of investment grade quality. All issuances shall be rated investment grade by at least two of the nationally recognized rating agencies. The portfolio is expected to maintain a minimum weighted average credit quality of either "A–" or better.

The credit quality ratings of bonds and notes and nonexchange commingled fixed income trust fund as of June 30, 2015, are as follows (in thousands):

	Rating (1)							
Investment type	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	CCC-	Not rated	Total
Bonds and notes:								
U.S. government agencies obligations:								
Federal Home Loan Bank (FHLB)	$ —	5,367	—	—	—	—	—	5,367
Federal National Mortgage Association (FNMA)	—	7,121	—	—	—	—	—	7,121
Federal Home Loan Mortgage Corporation (FHLMC)	—	8,420	—	—	—	—	—	8,420
Federal Farm Credit Banks (FFCB)	—	5,737	—	—	—	—	—	5,737
Mortgage and asset-backed securities:								
FNMA	—	4,411	—	—	—	—	—	4,411
FHLMC	—	1,939	—	—	—	—	—	1,939
Collateralized mortgage obligations (CMO) – others	—	—	—	—	—	—	212	212
Commercial mortgages	4,917	—	—	—	—	—	—	4,917
Asset-backed securities	—	—	—	—	—	—	7,631	7,631
U.S. corporate bonds and notes	14,799	63,815	223,895	183,061	14,333	—	1,163	501,066
Non U.S. corporate bonds	2,294	3,373	34,361	38,539	9,274	—	8,475	96,316
U.S. municipal bonds	2,736	2,834	3,221	—	—	—	—	8,791
COFINA bonds	—	—	—	—	—	89,139	—	89,139
Total bonds and notes	24,746	103,017	261,477	221,600	23,607	89,139	17,481	741,067
Nonexchange commingled fixed income trust fund – SSgA Intermediate fund	7,082	6,518	22,170	23,041	12	—	—	58,823
Total	$ 31,828	109,535	283,647	244,641	23,619	89,139	17,481	799,890

(1) Rating obtained from Standard and Poor's or equivalent rating by Moody's Investor Service or Fitch Ratings.

Approximately $54 million of the total System investments consist of U.S. government and Government National Mortgage Association (GNMA) mortgage-backed securities, which carry no risk, therefore, not included within the above table.

The System invests in a U.S. fixed income fund which consists of shares of the State Street Global Advisor (SSgA) Intermediate U.S. Credit Index Non-Lending Fund (SSgA Intermediate Fund). The investment objective of the SSgA Intermediate Fund is to replicate the Barclays U.S. Intermediate Credit Bond Index by investing exclusively in fixed income securities. Shares of the SSgA Intermediate Fund can be redeemed on a daily basis at NAV and have no redemption restrictions.

(c) Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the System's investment in a single issuer. As of June 30, 2015, there are no investments in any issuer that represent 5% or more of the System's total investments, except for its investment in COFINA Bonds.

Pursuant to Act No. 96 of June 16th, 2011, during the fiscal year ended June 30, 2011, the System received a special contribution of approximately $163 million from the Puerto Rico Infrastructure Financing Authority, an instrumentality of the Commonwealth. The contribution was invested in bonds issued by the Puerto Rico Sales Tax Financing Corporation (known as COFINA by its Spanish

acronym), which provide for a 7% accretion rate and maturity dates between 2043 and 2048. COFINA is a blended component unit of the Commonwealth. As required by Act No. 96 of June 16th, 2011, the System cannot voluntary dispose the COFINA Bonds unless such request has been approved by the GDB. The COFINA Bonds have a fair value of approximately $89 million as of June 30, 2015.

(d) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the System manages its exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for benefit payments, thereby avoiding the need to sell securities on the open market prior to maturity. Investments in equity securities are not subject to the maximum maturity policy since they do not carry a maturity date. The System is expected to achieve capital preservation and income generation by investing in a diversified portfolio of marketable, investment grade intermediate credit and core fixed-income securities.

The contractual maturity of investments as of June 30, 2015, is summarized below (in thousands). Expected maturities will differ from contractual maturities, because counterparties may have the right to call or prepay obligations with or without call or prepayment penalties.

	Maturity (in years)				
Investment type	Within one year	After one to five years	After five to ten years	After ten years	Total
Bonds and notes:					
U.S. government securities:					
U.S. Treasury notes	$ —	10,476	13,857	—	24,333
U.S. Treasury note strips	—	—	21,445	—	21,445
U.S. Treasury bonds	—	—	—	2,057	2,057
U.S. government sponsored agencies notes:					
FHLB	—	5,367	—	—	5,367
FNMA	—	4,820	2,301	—	7,121
FHLMC	—	6,901	1,519	—	8,420
FFCB	2,110	1,984	1,643	—	5,737
Mortgage and asset-backed securities:					
GNMA	—	—	—	5,859	5,859
FNMA	—	27	325	4,059	4,411
FHLMC	—	—	—	1,939	1,939
Collateralized mortgage obligations (CMO) – others	—	—	—	212	212
Commercial mortgages	—	—	—	4,917	4,917
Asset-backed securities	—	—	4,521	3,110	7,631
U.S. corporate bonds and notes	34,063	254,461	186,144	26,398	501,066
Non U.S. corporate bonds	3,487	41,255	50,682	892	96,316
U.S. municipal bonds	2,782	611	5,398	—	8,791
COFINA bonds	—	—	—	89,139	89,139
Total bonds and notes	42,442	325,902	287,835	138,582	794,761

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	Maturity (in years)				
Investment type	Within one year	After one to five years	After five to ten years	After ten years	Total
Nonexchange commingled fixed income trust fund – SSgA Intermediate Fund (1):					
U.S.	$ —	38,641	—	—	38,641
Non-U.S.	—	20,182	—	—	20,182
Total bonds and notes and nonexchange commingled fixed income trust fund	$ 42,442	384,725	287,835	138,582	853,584
Stocks					1
Nonexchange commingled equity trust funds and investments in limited partnerships:					
Nonexchange commingled equity trust funds:					
U.S. – SSgA Russell 3000 Fund					292,145
Non-U.S. – SSgA MSCI ACWI Ex USA Fund					116,855
Investments in limited partnerships					54,026
Total nonexchange commingled equity trust funds and investments in limited partnerships					463,026
Total investments					$ 1,316,611

(1) Nonexchange commingled fixed income trust fund was classified based on effective duration.

(e) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. As of June 30, 2015, the SSgA MSCI ACWI Ex USA Fund and the SSgA Intermediate Fund is subject to foreign currency risk.

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As of June 30, 2015, the composition of the underlying investments in the SSgA MSCI ACWI Ex USA and in the SSgA Intermediate Funds by country was as follows:

Country	SSgA MSCI ACWI EX USA Fund	SSgA Intermediate Fund
Japan	16 %	2 %
United Kingdom	14	3
Canada	7	5
France	7	—
Switzerland	7	1
Germany	6	4
Australia	5	1
China	5	—
Korea	3	—
Spain	3	—
Taiwan	3	—
Brazil	2	2
Hong Kong	2	—
India	2	—
Italy	2	—
Netherlands	2	—
South Africa	2	—
Sweden	2	—
Denmark	1	—
Singapore	1	—
United States	—	66
Mexico	—	2
Others	8	14
Total	100 %	100 %

(Continued)

(i) Nonexchange Commingled Trust Funds

As of June 30, 2015, the System owned shares in the SSgA Russell 3000 Index Non-Lending Fund (SSgA Russell 3000 Fund), the SSgA MSCI ACWI Ex USA Non-Lending Fund (SSgA MSCI ACWI Ex USA Fund), and the SSgA Intermediate Fund as follows (in thousands):

Fund name	Shares	Value
SSgA Russell 3000 Fund	13,581	$ 292,145
SSgA MSCI ACWI Ex USA Fund	6,426	116,855
SSgA Intermediate Fund	2,020	58,823
Total nonexchange commingled trust funds		$ 467,823

The investment objective of the Russell 3000 Fund is to approximate as closely as practicable, before expenses, the performance of the Russell 3000 Index over the long term. Shares can be redeemed on a daily basis at NAV and have no redemption restrictions.

The investment objective of the SSgA MSCI ACWI Ex USA Fund is to approximate as closely as practicable, before expenses, the performance of the MSCI ACWI ex USA Index over the long term. Shares can be redeemed semi-monthly at NAV and have no redemption restrictions.

As of June 30, 2015, the investments underlying the SSgA Russell 3000 Fund, SSgA MSCI ACWI Ex USA Fund, and the SSgA Intermediate Fund had the following sector allocations:

Sector	SSgA Russell 3000 Fund	SSgA MSCI ACWI Ex USA Fund
Information technology	19 %	8 %
Financials	16	28
Healthcare	15	9
Consumer discretionary	13	12
Industrials	11	11
Consumer staples	8	10
Energy	7	7
Materials	4	7
Utilities	3	3
Telecommunication services	2	5
	100 %	100 %

	SSgA Intermediate Fund
Corporate – industrial	45 %
Corporate – finance	30
Non corporates	21
Corporate – utility	4
Total	100 %

(ii) Investments in Limited Partnerships

The fair value of investments in limited partnerships at June 30, 2015, amounted to approximately $54 million and is presented as private equity investments in the basic Statement of Fiduciary Net Position. The allocations of net gains and losses to limited partners are based on certain percentages, as established in the limited partnership agreements. Investments in limited partnerships are not rated by a nationally recognized statistical rating organization.

In accordance with the partnership agreements, the System's investments can only be redeemed upon distribution from funds managers; usually in the form of a sale of its holdings or dividends distributed. As of June 30, 2015, the System does not intend to sell its investments in limited partnerships for an amount different to that presented in the financial statements.

On July 31, 2014, the Guayacán Fund of Funds L.P was dissolved by Grupo Guayacán, Inc. The final distribution of the fund was received by the System in December 2014.

As of June 30, 2015, the date of commitment, total commitment, 2015 contributions, contributions to date at cost, and estimated fair value of investments in limited partnerships are as follows (in thousands):

	Date of commitment	Total commitment	2015 Contributions	Contributions to date at cost	Estimated fair value
Grupo Guayacán, Inc.- Guayacán Fund of Funds II, LP	August 1999	$ 25,000	—	23,681	2,042
Advent-Morro Equity Partner, Inc.:					
Guayacán Private Equity Fund, LP	January 1997	5,000	—	4,645	2,214
Guayacán Private Equity Fund II, LP	April 2007	25,000	1,428	21,350	22,238
Venture Capital Fund, Inc.	November 1995	800	—	800	713
GF Capital Management and Advisors, LLC – GF Capital Private Equity Fund LP	December 2006	25,000	—	25,792	24,933
Chase Capital Partners Private: Equity Fund of Funds Corporate Investors II, LTD	July 2000	20,000	—	18,994	1,886
Martineau Bay Resort, s. en c. (s.e.)	July 1998	1,796	—	1,796	—
Total		$ 102,596	1,428	97,058	54,026

(iii) Securities Lending Transactions

The System participates in a securities lending program, whereby securities are transferred to an independent broker or dealer in exchange for collateral in the form of cash, government securities, and/or irrevocable bank letters of credit with a simultaneous agreement to return the collateral for the same securities in the future. Collateral is marked to market daily and the agent places a request for additional collateral from brokers, if needed. The custodian bank is the agent for the securities lending program.

At the end of the year, there was no credit risk exposure to borrowers because the amounts the System owes the borrowers (the collateral) exceeded the amounts the borrowers owe the System (the securities lent). At June 30, 2015, the collateral received represented 102% of the fair value of the total securities lent.

The securities on loan for which collateral was received as of June 30, 2015, consisted of the following (in thousands):

Description		Fair value of underlying securities
U.S. government securities:		
U.S. Treasury bills	$	910
U.S. Treasury notes		17,770
U.S. Treasury note strips		24,683
U.S. Treasury bonds		900
U.S. government sponsored agencies notes:		
FHLB		1,094
FNMA		2,672
FHLMC		1,816
U.S. corporate bonds and notes		21,076
Non U.S. corporate bonds and notes		7,434
Total	$	78,355

The underlying collateral for these securities had a fair value of approximately $80.1 million as of June 30, 2015. The collateral received was invested in a money market fund sponsored by the custodian bank. As of June 30, 2015, the short-term investment fund consisted of securities purchased under agreements to resell.

Under the terms of the securities lending agreement, the System is fully indemnified against failure of the borrowers to return the securities lent (to the extent the collateral is inadequate to replace the securities lent) or failure to pay the System for income distributions by the securities' issuers while the securities are on loan. In addition, the System is indemnified against loss should the lending agent fail to demand adequate and appropriate collateral on a timely basis.

(7) Accounts Receivable from Employers

As of June 30, 2015, accounts receivable from employers consisted of the following (in thousands):

Early retirement programs	$	3,264
Special laws		59,964
Employer and employee contributions		318,540
Interest on late payments		23,606
Total accounts receivable from employers		405,374
Less allowance for adjustments and losses in realization		(222,015)
Total accounts receivable from employers – net	$	183,359

According to Act No. 447, each employer must pay, on a monthly basis, the amounts corresponding to contributions and loan repayments, on or before the fifteenth day of the following month. After that date, interest is charged as established by the System.

As more fully described in note 3, the Commonwealth and many of its instrumentalities, which are the employers as it relates to the System, have been facing significant fiscal and economic challenges. Further, in recent months, the rating downgrade and widening of credit spreads for the Commonwealth's public sector and public corporations' debt has put further strain on liquidity and sources of funding of the employers. Consequently, most of the receivables from employers are delinquent past established paymentdates and/or installment plan due dates. In other instances, amounts past due have continued to be renegotiated to later dates.

As of June 30, 2015, the System recorded an allowance of approximately $222.0 million for adjustments and losses in realization of the additional uniform contributions due from the Commonwealth for the fiscal years 2014 and 2015 because, as explained in note 3, its collectability is uncertain at this moment.

Although certain measures have been taken to improve the collection of such receivables, the timing of collections from employers affects the liquidity needs of the System. Management is of the opinion that, except for the additional uniform contributions of the Commonwealth of approximately $222.0 million, other amounts due from employers are collectible; however this situation could ultimately affect the payment of benefits to members or repayment of the System's bonds payable, should any such amounts become uncollectible in the future.

(8) Member Loans and Interest Receivable

Loans receivable from plan members are guaranteed by the contributions of plan members and by other sources, including mortgage deeds and any unrestricted amount remaining in the escrow funds. In addition, collections on loans receivable are received through payroll withholdings. The latest maximum amount of loans to plan members for mortgage loans was $100,000 and $5,000 for personal and cultural trip loans. The originations of mortgage loans were frozen in December 2013 and those related to personal and cultural loans were frozen in November 2016. During the years ended June 30, 2014 and 2013, personal loans with principal balances amounting to approximately $100 million and $88 million, respectively, were sold to two financial institutions. As per servicing agreements, the System is in charge of the servicing, administration and collection of the loans and outstanding principal balances at and after closing date for a servicing fee of 2%.

The allowance for adjustments and losses in realization is considered a general allowance for all categories of loans and interest receivable, except mortgage loans, and also a specific allowance for the special collection project loans balances.

As of June 30, 2015, the composition of loans and interest receivable from plan members is summarized as follows (in thousands):

Loans receivable:		
Personal	$	360,379
Mortgage		170,785
Cultural trips		41,368
Total loans to plan members		572,532
Accrued interest receivable		37,416
Less allowance for adjustments and losses in realization		(2,331)
Total loans and interest receivable from plan members – net	$	607,617

(9) Other Assets

As of June 30, 2015, other assets mainly consist of repossessed and foreclosed properties acquired through foreclosure proceedings related to delinquent mortgage loans. Foreclosed properties are valued at the outstanding principal balance of the related mortgage loan upon foreclosure. These properties will be sold under a bidding process intended to recover the outstanding principal balance of the related mortgage loan. A gain or loss is recognized at the time of sale.

Differences resulting from the recognition of losses at the point of sale rather than upon foreclosure, as required by GAAP, are not material. Management believes that the carrying value of these properties approximates fair value.

In August 2014, the System sold land with a carrying value of approximately $4.7 million to a public corporation of the Commonwealth for approximately $9.0 million and realized a gain on disposition of asset of approximately $4.3 million. This gain of disposition of assets in included as part of other income in the Statement of Changes in Fiduciary Net Position for the year ended June 30, 2015.

(10) Bonds Payable

Senior Pension Funding Bonds – On February 27, 2007, the System's administration and GDB, acting as the System's fiscal agent (the Fiscal Agent), presented to the Board of Trustees, a financial transaction for the issuance of pension funding bonds in order to reduce the System's unfunded actuarial accrued liability. The Bonds are limited, nonrecourse obligations of the System, payable solely from and secured solely by a pledge of employer contributions made after the date of issuance of the first series of Bonds, and from funds held on deposit with the Bank of New York (the Fiscal Agent). The Bonds are not payable from contributions made to the System by participating employees, or from the assets acquired with the proceeds of the Bonds, or from employer contributions released by the Fiscal Agent to the System after funding of required reserves, or from any other assets of the System. The System invested the proceeds of the Bonds and used these investments and the earnings thereon to provide pension benefits to its beneficiaries.

On January 31, 2008, the System issued the first series of Bonds, which consisted of approximately $1,589 million aggregate principal amount of Senior Pension Funding Bonds, Series A (the Series A Bonds). On June 2, 2008, the System issued the second of such series of Bonds, which consisted of approximately $1,059 million aggregate principal amount of Senior Pension Funding Bonds, Series B (the Series B Bonds). Finally, on June 30, 2008, the System issued the third and final of such series of Bonds, which consisted of approximately $300 million aggregate principal amount of Senior Pension Funding Bonds, Series C (the Series C Bonds).

The following is a summary of changes in the bonds payable principle balance (in thousands):

	Maturity	Balance at June 30, 2014	Accretion	Balance at June 30, 2015
5.85% to 6.45% Term and Capital Appreciation Bonds Series A	2023–2058	$ 1,610,427	4,196	1,614,623
6.25% to 6.55% Term and Capital Appreciation Bonds Series B	2028–2058	1,172,487	23,235	1,195,722
6.15% to 6.50% Term and Capital Appreciation Bonds Series C	2028–2043	301,235	214	301,449
Bond discounts		(6,562)	216	(6,346)
Total		$ 3,077,587	27,861	3,105,448

As of June 30, 2015, the outstanding principal balance of the Bonds is as follows (in thousands):

Description		
Series A Bonds:		
Capital Appreciation Bonds, maturing in 2028, bearing interest at 6.20%	$	70,853
Term Bonds, maturing in 2023, bearing interest at 5.85%		200,000
Term Bonds, maturing from 2031 through 2038, bearing interest at 6.15%		679,000
Term Bonds, maturing from 2039 through 2042, bearing interest at 6.20%		332,770
Term Bonds, maturing from 2055 through 2058, bearing interest at 6.45%		332,000
Total Series A Bonds outstanding		1,614,623
Series B Bonds:		
Capital Appreciation Bonds, maturing from 2028 through 2030, bearing interest at 6.40%		220,485
Capital Appreciation Bonds, maturing from 2031 through 2034, bearing interest at 6.45%		159,137
Term Bonds, maturing in 2031, bearing interest at 6.25%		117,100
Term Bonds, maturing from 2036 through 2039, bearing interest at 6.30%		270,000
Term Bonds, maturing from 2055 through 2058, bearing interest at 6.55%		429,000
Total Series B Bonds outstanding		1,195,722
Series C Bonds:		
Capital Appreciation Bonds, maturing in 2030, bearing interest at 6.50%		3,449
Term Bonds, maturing in 2028, bearing interest at 6.15%		110,000
Term Bonds, maturing in 2038, bearing interest at 6.25%		45,000
Term Bonds, maturing in 2043, bearing interest at 6.30%		143,000
Total Series C Bonds outstanding		301,449
Total bonds outstanding		3,111,794
Less bonds discount		(6,346)
Bonds payable – net	$	3,105,448

Series A Bonds – The aggregate principal amount of the Series A Bonds issued amounted to approximately $1,589 million of which $1,544 million were issued as term bonds (the Series A Term Bonds) and $45 million were issued as capital appreciation bonds (the Series A Capital Appreciation Bonds). Interest in the Series A Term Bonds are payable monthly on the first day of each month. Interest on the Series A Capital Appreciation Bonds are not payable on a current basis, but are added to the principal of the Capital Appreciation Bonds on each January 1 and July 1 (Compounding Dates), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360 day year consisting of twelve 30 day months.

The Series A Bonds are subject to redemption at the option of the System from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series A Capital Appreciation Bonds, the accreted amount) of the Series A Bonds, plus accrued interest to the redemption date, and without premium.

In addition, the following Series A Term Bonds are subject to mandatory redemption in part commencing on July 1, 2021 to the extent of the sinking fund requirement for said bonds set forth below at a redemption price equal to 100% of the principal amount thereof plus accrued interest as follows (in thousands):

Redemption period	Subject bonds		Amount
July 1, 2021	Term bonds (final maturity July 1, 2023)	$	50,000
July 1, 2022	Term bonds (final maturity July 1, 2023)		70,000
July 1, 2023	Term bonds (final maturity July 1, 2023)		80,000
	Subtotal		200,000
July 1, 2031	Term bonds (final maturity July 1, 2038)		3,000
July 1, 2032	Term bonds (final maturity July 1, 2038)		4,500
July 1, 2033	Term bonds (final maturity July 1, 2038)		4,000
July 1, 2034	Term bonds (final maturity July 1, 2038)		133,500
July 1, 2035	Term bonds (final maturity July 1, 2038)		133,500
July 1, 2036	Term bonds (final maturity July 1, 2038)		133,500
July 1, 2037	Term bonds (final maturity July 1, 2038)		133,500
July 1, 2038	Term bonds (final maturity July 1, 2038)		133,500
	Subtotal		679,000
Total		$	879,000

Series B Bonds – The aggregate principal amount of the Series B Bonds amounted to approximately $1,059 million of which $816 million were issued as term bonds (the Series B Term Bonds) and $243 million were issued as capital appreciation bonds (the Series B Capital Appreciation Bonds). Interest in the Series B Term Bonds are payable monthly on the first day of each month. Interest on the Series B Capital Appreciation Bonds are not payable on a current basis, but are added to the principal of the Series B Capital Appreciation Bonds on each January 1 and July 1 (Compounding Dates), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360 day year consisting of twelve 30 day months.

The Series B Bonds are subject to redemption at the option of the System from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series B Capital Appreciation Bonds, the accreted amount) of the Series B Bonds, plus accrued interest to the redemption date, and without premium.

Series C Bonds – The aggregate principal amount of the Series C Bonds amounted to approximately $300 million of which $298 million were issued as term bonds (the Series C Term Bonds) and $2 million were issued as capital appreciation bonds (the Series C Capital Appreciation Bonds). Interest in the Series C Term Bonds are payable monthly on the first day of each month. Interest on the Series C Capital Appreciation Bonds are not payable on a current basis, but are added to the principal of the Series C Capital Appreciation Bonds on each January 1 and July 1 (Compounding Dates), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360 day year consisting of twelve 30 day months.

The Series C Bonds are subject to redemption at the option of the System from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series C Capital Appreciation Bonds, the accreted amount) of the Series C Bonds, plus accrued interest to the redemption date, and without premium.

In addition, the following Series C Term Bonds are subject to mandatory redemption in part commencing on July 1, 2024 to the extent of the sinking fund requirement for said bonds set forth below at a redemption price equal to 100% of the principal amount thereof plus accrued interest as follows (in thousands):

Redemption period	Subject bonds		Amount
July 1, 2024	Term bonds (final maturity July 1, 2028)	$	18,700
July 1, 2025	Term bonds (final maturity July 1, 2028)		22,000
July 1, 2026	Term bonds (final maturity July 1, 2028)		29,150
July 1, 2027	Term bonds (final maturity July 1, 2028)		36,300
July 1, 2028	Term bonds (final maturity July 1, 2028)		3,850
	Subtotal		110,000
July 1, 2029	Term bonds (final maturity July 1, 2038)		100
July 1, 2030	Term bonds (final maturity July 1, 2038)		540
July 1, 2031	Term bonds (final maturity July 1, 2038)		100
July 1, 2032	Term bonds (final maturity July 1, 2038)		3,420
July 1, 2033	Term bonds (final maturity July 1, 2038)		4,320
July 1, 2034	Term bonds (final maturity July 1, 2038)		100
July 1, 2035	Term bonds (final maturity July 1, 2038)		11,940
July 1, 2036	Term bonds (final maturity July 1, 2038)		2,160
July 1, 2037	Term bonds (final maturity July 1, 2038)		7,920
July 1, 2038	Term bonds (final maturity July 1, 2038)		14,400
	Subtotal		45,000

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Basic Financial Statements

June 30, 2015

Redemption period	Subject bonds		Amount
July 1, 2039	Term bonds (final maturity July 1, 2043)	$	28,600
July 1, 2040	Term bonds (final maturity July 1, 2043)		28,600
July 1, 2041	Term bonds (final maturity July 1, 2043)		28,600
July 1, 2042	Term bonds (final maturity July 1, 2043)		28,600
July 1, 2043	Term bonds (final maturity July 1, 2043)		28,600
			143,000
Total		$	298,000

Debt service requirements in future years on the System's bonds as of June 30, 2015 are as follows (in thousands):

		Principal	Interest		Total
Year ending June 30:					
2016	$	—	166,519		166,519
2017		—	166,519		166,519
2018		—	166,519		166,519
2019		—	166,519		166,519
2020		—	166,519		166,519
2021–2025		218,700	799,171		1,017,871
2026–2030		648,055	747,700		1,395,755
2031–2035		897,165	700,709		1,597,874
2036–2040		1,036,940	484,531		1,521,471
2041–2045		279,250	266,815		546,065
2046–2050		—	247,568		247,568
2051–2055		—	247,568		247,568
2056–2060		761,000	82,048		843,048
		3,841,110	4,408,705	$	8,249,815
Less:					
Unaccreted interest		(729,316)			
Unamortized discount		(6,346)			
Total	$	3,105,448			

Pledge of Employer Contributions Pursuant to Security Agreement – The System entered into a Security Agreement with the Fiscal Agent for the benefit of the bondholders, pursuant to which the System pledged to the Fiscal Agent, and granted the Fiscal Agent a security interest in employer contributions made after January 31, 2008, which was the date of issuance of the first series of bonds, and the funds on deposit with the Fiscal Agent under the various accounts established under the Pension Funding Bond Resolution (the Resolution).

The Resolution and the Security Agreement constitute a contract between the System and the Fiscal Agent, on behalf of the owners of the bonds. The pledge, covenants and agreements of the System set forth in the Resolution and the Security Agreement shall be for the equal benefit, protection and security of the owners of the bonds, regardless of time or times of their issuance or maturity, and shall be of equal rank, without preference, priority or distinction of any of the bonds over any other bond, except as expressly provided in or permitted by the Resolution. Annual employer contributions that are made after January 31, 2008, which was the date of issuance of the first series of bonds, in accordance with the Act and amounts on deposit in the different accounts created pursuant to the Resolution for the benefits of the owners of the bonds, are pledged for annual debt service requirements as established. The pledge is irrevocable so long as any bonds are outstanding under the terms of the Resolution.

Starting in August 2016, and monthly thereafter, the fiscal agent under the Resolution of the System's bonds notified to the System that it failed to transfer the requisite employers' contributions on the last business day of each month. The fiscal agent is not seeking to collect or recover any indebtedness from, enforce any judgment against, or obtain possession of, exercise control over, any property of or from, the Commonwealth or any of its instrumentalities, including the System, or exercise any act that is stayed by PROMESA, the Puerto Rico Financial Emergency and Fiscal Responsibility Act of January 29, 2017 (Act No. 5 or the Financial Emergency Act), the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act (Act No. 21 or the Moratorium Act), or any Executive Orders related thereto. Consistent with PROMESA, the Financial Emergency Act, the Moratorium Act, and any Executive Orders, the fiscal agent is not exercising at this time any rights or remedies against the Commonwealth of Puerto Rico or any of its instrumentalities, including the System.

(11) Guarantee Insurance Reserve for Member Loans

The System provides life insurance that guarantees the payment of the outstanding principal balance of mortgage, personal and cultural trip loans in case of death of a plan member. The plan members who obtained these loans from the System pay the coverage in its entirety. The life insurance rates are actuarially determined and do not vary by age, sex, or health status.

(12) Other Postemployment Healthcare Benefits Funded Status and Funding Progress

The System's other postemployment healthcare benefits (OPEB) funded status as of June 30, 2015, the most recent actuarial valuation date, is as follows (dollars in thousands):

Actuarial value of plan assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded ratio	Annual covered payroll	UAAL as a percentage of annual covered payroll
$ —	1,428,788	1,428,788	—	$ 3,319,280	43 %

The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

Act No. 3 eliminated the medical insurance plan contribution of $100 per month for future retirees effective July 1, 2013.

The census data collection date is at beginning-of-year. The liability results as of June 30, 2015 are based on projecting the System obligations determined as of the census data collection date of July 1, 2014 for one year, using roll-forward methods and assuming no liability gains or losses. The amortization period for GASB Statement No. 45 has been reduced to the expected future lifetime of current in pay members.

The actuarial valuations used the following actuarial assumptions:

Actuarial cost method	Entry age normal
Amortization method	18 years closed (beginning July 1, 2014), level dollar
Remaining amortization period	18 years
Asset valuation method	Not applicable
Actuarial assumptions:	
Investment rate of return	3.10%
Projected salary increases	Not applicable
Projected payroll growth	Not applicable
Inflation	Not applicable
Cost of living adjustment	Not applicable

Actuarial valuations of an ongoing plan involve estimates of the net value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and mortality. Amounts determined are subject to continuous revision as actual results are compared with past expectations and new estimates are made about the future.

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projection of OPEB for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

The actuarial calculations reflect a long–term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short–term volatility in actuarial accrued liabilities and actuarial value of assets.

The OPEB mortality rate assumptions are the same as that for pension benefits. Refer to note 5.

(13) Contingencies

The System is a defendant in a lawsuit challenging the constitutionality of Act No. 3.

The plaintiffs requested the System to honor the participants of an employer of the System, the benefits available to them under Act No. 447 which were affected by Act No. 3 of 2013, with the economic consequences that this would entail. On February 13, 2015, the Puerto Rico Supreme Court denied the plaintiff's recourse. On March 6, 2014, the plaintiffs filed an amended complaint, including the System's Board of Trustees as a defendant and including a torts claim against the System's Administration and its Board of Trustees.

With respect to this lawsuit, the System, in consultation with legal counsel, has determined that at this stage of the proceedings they cannot offer an opinion as to the probable outcome. Accordingly, management does not consider necessary making any provision in its books for these cases and intends to contest them vigorously.

The System is also a defendant in a lawsuit brought by pensioners of the System. They filed the claim on behalf of the System against the underwriters of certain pension bonds of the System and some of the former members of the Board of Trustees of the System. The complaint requested $800 million in damages resulting from the $3 billion bond issuance in 2008 that, according to the plaintiffs, compromised the solvency of the System. On December, 2016, the Court of First Instance permitted the transpose of the System as plaintiff in the Complaint. This case is in its initial stages, therefore no provision for liability, if any, which may result upon adjudication of this lawsuit has been recorded by the System.

In addition, the System is a defendant or co-defendant in various lawsuits resulting from the ordinary conduct of its operations. Based on the advice of legal counsel and considering insurance coverages, management is of the opinion that the ultimate liability, if any, will not have a significant effect on the financial status of the System.

(14) Subsequent Events

Subsequent events were evaluated through February 19, 2018, the date the financial statements were available to be issued, to determine if such events should be recognized or disclosed in the 2015 financial statements.

Pre-Retirement Program

On December 8, 2015, the Commonwealth enacted Act No. 211, establishing a voluntary program that provides benefits for pre-retirements to eligible employees, as defined. Act No. 211 applies to eligible employees of agencies and component units whose budgets are funded in whole or in part by the Commonwealth's General Fund, municipalities, component units that operate with their own resources (except those that have their own retirement system), Judiciary Branch, except judges, and the Commonwealth Employees Association. Act No. 211, among other provisions, established that pre-retirement benefits (pre-retirement program) will be provided to eligible employees who started contributing to the System before April 1, 1990 with at least 20 years of service and will consist of biweekly benefits of 60% of the of each employee's salary as of December 31, 2015, as defined. Pursuant to Act No. 211, the employers will continue making the applicable employee and employer contributions to the Retirement System and the employer contributions to the Federal Social Security and Medicare based on the average salary, as defined, as of December 31, 2015. Individual contributions to the Federal Social Security and Medicare will be deducted from the biweekly benefits to be paid to the participant. These payments will be made until the employee reaches the age of 61 years. Other benefits would include the payment of the participant's healthcare plan during the first two years of the program. Once the participant reaches age of 61 years, the participant is eligible to receive payments from the System and is entitled to a guaranteed minimum pension of 50% of their average salary (except police officers, which would be paid 60%) which related cost will be paid by the employer.

Moratorium Act and Declaration of Fiscal Emergency

On April 6, 2016, the Governor of Puerto Rico signed into law the Puerto Rico Emergency Moratorium and Rehabilitation Act (Act No. 21 or the Moratorium Act). Among other objectives, Act No. 21 allows the Governor to declare – at some point in the future – a moratorium on debt service payments and to stay related creditor remedies for a temporary period for the Commonwealth, the GDB, the Economic Development Bank for Puerto Rico, and certain additional government instrumentalities in Puerto Rico, including the System. The temporary period set forth in Act No. 21 lasts until January 31, 2017, with a possible two-month extension in the Governor's discretion. The provisions regarding the moratorium and stay in respect of any obligations owed by the System require executive action of the Governor to become effective.

On April 8, 2016, the Governor of Puerto Rico issued an Executive Order, EO-2016-010 (the Executive Order), declaring GDB to be in a state of emergency pursuant to Act No. 21. The Executive Order, in accordance with the emergency powers provided for in Act No. 21, implemented a regulatory framework governing GDB's operations and liquidity, including establishing a procedure with respect to governmental withdrawals, payments, and transfer requests in respect of funds held on deposit at GDB and loan disbursements by GDB. The procedures implemented by the Executive Order may have restricted the ability of the System to withdraw any funds held on deposit at GDB or to receive any disbursements on loans granted by GDB during the period of the Executive Order, which is in effect until June 30, 2016. However, while the Executive Order created a stay on the enforcement of certain financial debt obligations of GDB, it did not impose a moratorium on any financial debt obligation of GDB. The Executive Order did not declare an emergency period for the Commonwealth itself, the System or any other entity, other than GDB.

On June 30, 2016, the Governor signed an executive order, EO-2016-030 (EO 30), which among other things, declared the Commonwealth to be in a state of emergency and declared a moratorium on the Commonwealth's obligation to make payments on bonds and notes issued or guaranteed by the Commonwealth. On the same date, the Governor signed an executive order, EO-2016-031 (EO 31), which among other things, declared an emergency period with respect to System and suspended the monthly payments to the trustee of the System's bonds in July 2016. These executive orders, and other executive orders signed by the Governor, also declared an emerging period over various employers of the System.

PROMESA and Related Litigation

The Commonwealth nor its component units, including the System, are eligible to seek relief under Chapter 9 of the United States Bankruptcy Code. However, on June 30, 2016, the Congress of the United States enacted PROMESA, which grants the Commonwealth and its component units access to an orderly mechanism to restructure their debts in exchange for significant federal oversight over the Commonwealth's finances. PROMESA was enacted pursuant to Section 3 of Article IV of the United States Constitution, which provides the U.S. Congress the power to dispose of and make all needful rules and regulations for territories. In broad terms, PROMESA seeks to provide Puerto Rico with fiscal and economic discipline through the creation of the Oversight Board, relief from creditor lawsuits through the enactment of a temporary stay on litigation, and two alternative methods to adjust unsustainable debt.

Pursuant to PROMESA Section 405, the enactment of PROMESA imposed an automatic stay on all litigation against Puerto Rico and its instrumentalities, as well as any other judicial or administrative actions or proceedings to enforce or collect claims against the Commonwealth and its instrumentalities (the PROMESA Stay). This stay initially was effective until February 15, 2017, but was extended 75 days by the Oversight Board through May 1, 2017.

On January 29, 2017, the Commonwealth enacted Act No. 5, the Financial Emergency Act. Act No. 5 is intended to facilitate and encourage a voluntary negotiation process under PROMESA between the Governor of Puerto Rico and/or the Puerto Rico Fiscal Agency and Financial Advisory Authority, on behalf of the Commonwealth, and the creditors of the Commonwealth and its instrumentalities. Act No. 5 authorizes the Commonwealth, within the parameters established by PROMESA, to designate certain services necessary for the health, safety and welfare of the residents of Puerto Rico and provided by the Commonwealth and its instrumentalities as "essential services", in accordance with the Constitution of Puerto Rico.

On May 1, 2017, the PROMESA Stay expired, permitting the substantial litigation brought by bondholders and other creditors against the Commonwealth and its instrumentalities to resume. As a result, on May 3, 2017, the Oversight Board commenced a Title III case for the Commonwealth by filing a petition for relief under Title III of PROMESA. On May 21, 2017, the Oversight Board commenced Title III cases for the System by filing similar petitions for relief under Title III of PROMESA. On May 11, 2017, United States Supreme Court Chief Justice John Roberts designated United States District Judge Laura Taylor Swain as the presiding judge in the Title III cases. All of the foregoing Title III cases have been consolidated for procedural purposes only and are being jointly administered under Case No. 17-3283-LTS in the United States District Court for the District of Puerto Rico.

Faced with the eventual insolvency of the System and the inability to reach a consensual restructuring agreement with its creditors, on May 21, 2017, the Oversight Board filed a petition for relief for the System pursuant to PROMESA Section 304(a), 48 U.S.C. §2164. As such, the System is a debtor in a proceeding pursuant to PROMESA Title III, 48 U.S.C. 48 U.S.C. §2161, et seq. Pursuant to PROMESA Section 315 (48 U.S.C. §2175), the Oversight Board serves as the debtor's representative in the Title III proceedings.

On June 23, 2017, the Legislature approved the Other Assignments for the Fiscal Year 2017-2018 Joint Resolution, which among other things, ordered the System, JRS, and TRS to liquidate their assets and pass the net proceeds to the Treasury Department of the Commonwealth. On July 20, 2017 the System sold investments amounting to approximately $297 million.

On June 24, 2016, Fitch downgraded from "CC" to "C" the System bonds and placed them on "negative" outlook since default of some kind was deemed inevitable. Fitch cited "the breakdown of negotiations between the Commonwealth and major bondholders, the recent ruling by the U.S. Supreme Court on the Commonwealth's bankruptcy legislation, and the slow process of federal legislation in support of the Commonwealth" as indicators that a debt restructuring, deferral or default has become inevitable. Fitch also indicated that recently released proposals and counterproposals between the Commonwealth and bondholders indicate a distressed debt exchange of some kind was inevitable. Moreover, Fitch expressed that with sizeable debt service payments due on July 1, 2016, the probability of default on the general obligation debt is high. Soon after the missed payments of July 1, 2016 imposed by the Moratorium Act and related executive orders, S&P downgraded to the lowest level of "D" the general obligation bonds of the Commonwealth, while Fitch did the same. On April 6, 2017, Moody's downgraded the System bonds to a level C rating from its previous ratings of Ca and Ca, respectively. On that same date, Moody's reaffirmed the Caa3 rating on the Commonwealth's GO bonds. On June 7, 2017, S&P downgraded COFINA's senior and junior lien bonds to the default rating of D, in response to Title III Judge Swain order not to make the COFINA's scheduled debt service for June 1, July 1 and August 1, 2017; but to maintain such funds in a trust account until the judge decides on the case, further discussed above.

On July 17, 2017, Judge Swain approved agreement a Joint Stipulation reached between the System and certain System bondholders. In the Stipulation, the parties also agreed that the System would make interest payments due on October 1, 2017 from the System's Prepetition Segregated Account (which was created pursuant to a stipulation and order dated January 17, 2017) and that these payments would constitute adequate protection for the creditors until October 31, 2017 with respect to the automatic stay. In addition, the System and certain bondholders agreed that, the System would seek a declaratory relief challenging the validity, priority, extent and enforceability of the prepetition and post-petition liens and security interests asserted by certain bondholders with respect to bonds issued by the System. The stipulation also calls for payment of approximately $14 million in interest due July 1, 2017 and missed by the System, after commencement of its Title III case. The System will also pay subsequent monthly interest payments until October 1, 2017, or approximately $42 million in total.

On July 21, 2017, pursuant to the Joint Stipulation the Oversight Board, on behalf of the System filed a declaratory relief challenging the validity, priority, extent and enforceability of the prepetition and post-petition liens and security interests asserted by Defendants with respect to bonds issued by the System. The complaint contends that the Defendants' alleged liens and security interests are not perfected because the required UCC financing statements and subsequent amendments were defective. The System

also challenges, among other things, the System Bondholders' alleged security interest in post-petition employer contributions. Defendants have asserted counter-claims related to the same issues.

On November 28, 2017, certain System Bondholders (the Puerto Rico Funds) filed a motion to require the System to continue making payments from Prepetition Segregated Account (Created pursuant to the Stipulation) until the court rules on the parties' motion for summary judgment, the Court granted the motion in part. Specifically, the Court ordered the System to transfer the December 2017 and January 2018 interest payments pursuant to the Stipulation, and going forward to transfer the interest payment by the 20th of each month until the earlier of (i) the Court's order on the motion for summary judgment, or (ii) the exhaustion of the funds in the Prepetition Segregated Account.

Enactment of Pay-as-You-Go and Related Litigation under Title III of PROMESA

On June 27, 2017, the Treasury Department issued Circular Letter No. 1300 46 17 in order to convey to the central government agencies, public corporations and municipalities the new implementation procedures to adopt, effective, July 1, 2017, the new "pay-as-you-go (PayGo)" mechanism for all of the Commonwealth's Retirement Systems. With the start of the fiscal year 2018, employers' contributions, contributions ordered by special laws and the Additional Uniform Contribution were all eliminated and replaced by a monthly PayGo charge that will be collected from the aforementioned government entities to pay retirees. The Commonwealth Retirement Systems will determine and administer the payment amount per retiree that will be charged to each agency, public corporation and municipality. The PayGo charge must be submitted to the Treasury Department before the 15th day of each month along with the individual contributions withheld from active employees. As liquid retirement funds become depleted, the PayGo charge is expected to increase.

In addition to the establishment of the PayGo mechanism, on August 23, 2017, the Commonwealth enacted Act to Guarantee the Payment to Our Pensioners and Establish a New Plan for Defined Contributions for Public Servants (Act 106 2017), which reformed the System, JRS and TRS, so that their active participants would deposit their individual contributions in a new Defined Contribution Plan that will be managed by a private entity. Act 106 2017 creates the legal framework so that the Commonwealth can guarantee payments to pensioners through the PayGo scheme. With this system, the Commonwealth makes pension payments from the General Fund, according to the money available. Approximately $2 billion was allocated for these purposes in the fiscal year 2018 budget. Act 106 2017 also created a Defined Contribution Plan, similar to a 401(k) plan, which guarantees the contributions of public servants, because future benefits will not be paid by the retirement systems. However, under the PayGo system, Puerto Rico's municipalities will remain obligated on their pension obligations.

Act No. 106-2017, among other things, amends Act No. 3 with respect to the System's governance, funding and benefits for active members of the actual program and new hired members. By this act, the System's Board of Trustees was substituted with the Retirement Board of the Government of Puerto Rico (Retirement Board). Pursuant this act the Retirement Board will also be in charge of the governance of the System and the JRS. The Retirement Board has thirteen members; five ex-officio, four representatives of the active participants and four representatives of the public interest.

Act No. 106-2017 also terminates the actual program for the System participants as of June 30, 2017. The members of the actual program and new system members hired since July 1, 2017 will be enrolled in a new defined contributions program that will be selected by the Retirement Board. The accumulated balance on the accounts of the actual program will be transferred to the members account at the new defined contributions program. The System' active members of the defined contributions program will retain their benefits as stated under Act 91 of March 29, 2003.

Act 106-2017 also ordered a suspension of the System' loan programs and ordered a merger of the administrative structures of the retirement systems. At the Retirement Board discretion, the administration of the system benefits might be externalized. The employees of the System that are not retained under the new administrative structure will be transferred to other public agencies in conformity with Act 8 of February 8, 2017.

On July 27, 2017, System Bondholders, initiated a complaint against the Commonwealth, the Oversight Board, the Puerto Rico Fiscal Agency and Financial Advisory Authority, the System, Governor of Puerto Rico and Treasury Secretary. The lawsuit seeks a declaration that that Commonwealth legislation, Joint Resolution 188 and Act 106-2017 (the PayGo Legislation) is void ab initio on the grounds that it violates the automatic stay under the Bankruptcy Code and violates the Takings and Contract Clauses of the U.S. Constitution. The System, represented by the Oversight Board and the Puerto Rico Fiscal Agency and Financial Advisory Authority, moved to dismiss the complaint in full on November 17, 2017. The motion was fully briefed as of January 24, 2018. No hearing has been set on the motion.

On September 20, 2017, Puerto Rico got a direct hit from Hurricane Maria, the strongest hurricane to hit the island in almost a century, the System's building was extremely destroyed by Hurricane Maria causing the relocation of the employees. The System has entered into a lease agreement with the Puerto Rico Public Buildings Authority in order to relocate its offices to a different building and be able to continue operations. This lease agreement has caused the System to negotiate some additional contracts and eliminate others related to auxiliary services. Management of the System is in the process of determining the extent of damages.

REQUIRED SUPPLEMENTARY INFORMATION

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Changes in the Employers' Net Pension Liability and Related Ratios – Pension Benefits (Unaudited)

Years ended June 30, 2015 and 2014

(Dollars in thousands)

		2015 Amount	2014 Amount
Total pension liability:			
Service cost	$	425,564	419,183
Interest		1,279,556	1,321,478
Differences between expected and annual experience		(463,898)	53,939
Changes in assumptions		2,781,098	1,198,307
Benefit payments, including refunds of contributions		(1,572,675)	(1,714,758)
Net change in total pension liability		2,449,645	1,278,149
Total pension liability – beginning		30,219,517	28,941,368
Total pension liability – ending (a)		32,669,162	30,219,517
Plan's fiduciary net position (deficit):			
Employer contributions – net of provision		673,926	713,813
Member contributions		339,650	359,862
Net investment income		29,258	225,005
Other income		28,499	30,748
Benefit payments, including refunds of member contributions		(1,572,675)	(1,714,758)
Administrative expenses		(33,623)	(29,530)
Interest on bonds payable		(194,400)	(192,947)
Other expenses		(19,573)	(26,584)
Net change in plan fiduciary net position		(748,938)	(634,391)
Total fiduciary net position – beginning		80,666	715,057
Total fiduciary net position (deficit)– ending (b)		(668,272)	80,666
Employers' net pension liability – ending (a)-(b)	$	33,337,434	30,138,851
Plan's fiduciary net position (deficit) as a percentage of the total pension liability		(2.05)%	0.27 %
Covered employee payroll	$	3,319,280	3,489,096
Employers' net pension liability as a percentage of covered employee payroll		1,004.36 %	863.80 %

Note:
Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

See accompanying notes to required supplementary information and independent auditors' report.

**EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT
OF THE COMMONWEALTH OF PUERTO RICO**
(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Investment Return – Pension Benefits (Unaudited)

Years ended June 30, 2015 and 2014

	2015	2014
Annual money-weighted rate of return, net of investment expenses	4.2 %	11.2 %

Note:
Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

See accompanying notes to required supplementary information and independent auditors' report.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT
OF THE COMMONWEALTH OF PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Employers' Contributions – OPEB (Unaudited)

(Dollars in thousands)

Fiscal year ended (1)	Annual required contributions	Actual employers' contributions	Percentage of contribution
June 30, 2015	$ 103,878	97,374	93.7
June 30, 2014	88,508	102,085	115.3
June 30, 2013	154,999	91,823	59.2
June 30, 2012	133,654	94,664	70.8
June 30, 2011	129,395	93,851	72.5
June 30, 2010	128,294	88,599	69.1
June 30, 2009	111,683	85,385	76.5

(1) The System's annual required contributions for the year ended June 30, 2015 and 2014 were determined by the actuarial valuation at beginning of year that was updated to roll forward the funded status to June 30, 2015 and 2014 and assuming no liability gains or losses. Prior year actuarial valuations were made using end-of-year census data.

See accompanying notes to required supplementary information and independent auditors' report.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Funding Progress – OPEB (Unaudited)

(Dollars in thousands)

Actuarial valuation date (1)	Actuarial value of plan assets	Actuarial accrued liability (AAL)	Unfunded Actuarial accrued liability (UAAL)	Funded ratio	Annual covered payroll	UAAL percentage of annual covered payroll
June 30, 2015	$ —	1,428,788	1,428,788	— %	$ 3,319,280	43.0 %
June 30, 2014	—	1,438,475	1,438,475	—	3,489,096	41.2
June 30, 2013	—	1,482,879	1,482,879	—	3,489,096	42.5
June 30, 2012	—	2,120,970	2,120,970	—	3,570,339	59.4
June 30, 2011	—	1,758,389	1,758,389	—	3,666,402	48.0
June 30, 2010	—	1,699,373	1,699,373	—	3,818,332	44.5
June 30, 2009	—	1,633,159	1,633,159	—	4,292,552	38.0

(1) The System's OPEB funded status as of June 30, 2015 and 2014 were determined by the actuarial valuation at beginning of year that was updated to roll forward the funded status to June 30, 2015 and 2014 and assuming no liability gains or losses. Prior year actuarial valuations were made using end-of-year census data.

See accompanying notes to required supplementary information and independent auditors' report.

(1) Changes in Benefits Terms

There have not been any changes in plan provisions since the prior valuation.

(2) Changes in Assumptions

Actuarial assumptions are revised periodically to more closely reflect actual, as well as anticipated future experience.

The investment return assumption was decreased from 6.75% per year in fiscal year 2014 to 6.55% per year in fiscal year 2015. Accordingly, the assumed investment return on the defined contribution hybrid account (80% of the net investment return assumption) was decreased from 5.40% per year in fiscal year 2014 to 5.24% per year in fiscal year 2015.

The projected mortality improvement scale was updated from Scale AA to Scale MP-205, which was published by the Society of Actuaries in October 2015. Also, as Scale MP-2015 is a two-dimensional mortality scale, the base mortality rates for the post-retirement mortality assumption were set to the 2010 rates – the central year of the 2007 to 2012 System experience study upon which the rates were based. In addition, the pre-retirement mortality rates were also updated to reflect updated mortality tables published by the Society of Actuaries.

The asset basis for the date of depletion projection is the System's fiduciary net position (the gross assets plus deferred outflows of resources less the gross liabilities, including the senior pension funding bonds payable, plus deferred inflows of resources). On this basis, the System's fiduciary net position was exhausted in the fiscal year 2015.

In addition, the date of depletion projection of the actuarial report does not include any amounts from the additional uniform contribution required by Act No. 32 because of actual fiscal and budgetary financial difficulties with continued budget deficits and liquidity risks of the Commonwealth and the municipalities and in the event that their financial condition do not improve in the near term.

The System's fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the tax free municipal bond index (Bond Buyer General Obligation 20-Bond Municipal Bond Index) was applied to all periods of projected benefits payments to determine the total pension liability.

The discount rate used to determine the total pension liability decreased from 4.29%% at June 30, 2014 to 3.80% at June 30, 2015, determined under GASB Statement No. 67. Under GASB Statement No. 67, the investment return assumption is an input that is used in the calculation of the single equivalent interest rate that is used to discount these benefits to determine the Total Pension Liability. Under former GASB Statements No. 25 and No. 27, the investment retum assumption was used to discount all projected Basic System Pension Benefits and System Administered Pension Benefits to determine the Actuarial Accrued Liability. For fiscal years 2008 to 2010 and for fiscal years 2011, 2012 and 2013, the discount rates determined under GASB Statements No. 25 and No. 27 were 7.50%, 6.40%, 6.00% and 6.40%, respectively.

Also, the valuations for fiscal year 2015 and 2014 reflect a salary freeze until July 1, 2017 due to Act No. 66 and the current economic conditions in Puerto Rico.

(3) Changes in Actuarial Methods since the prior Valuation

There have not been any changes in methods since the prior valuation.

In fiscal years 2015 and 2014, the census data collection date changed from end-of-year to beginning-of-year. The total pension liability at end of year was determined by actuarial valuation as of the census data collection date at beginning-of-year and was then projected forward to end-of-year, using roll-forward methods and assuming no liability gains or losses.

The June 30, 2014, actuarial valuation reflects an increase of $3,136 million in the net pension liability as a result of the changes in assumptions of $2,781 millions, mainly related to the decrease in the discount rate as required by GASB Statement No. 67 from 4.29% in fiscal year 2014 to 3.80% in fiscal year 2015 and the Plan Fiduciary Net Deficit Position of approximately $605 million as of June 30, 2015, which effects were offset by a decrease of $464 million in the total pension liability as a result differences between expected and actual experience.

(4) Method and Assumptions Used in the System's Actuarial Valuation

The following actuarial methods and assumptions were used in the System's actuarial valuation of June 30, 2015:

Actuarial cost method	Entry age normal
Asset valuation method	Market value of assets
Inflation	2.50%
Municipal bond index	3.80%, as per Bond Buyer General Obligation 20-Bond Municipal Bond Index
Projected salary increases	3.00% per year. No compensation increases are assumed until July 1, 2017 as a result of Act No. 66 and the current general economy.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Required Supplementary Information

June 30, 2015

Mortality	Pre-retirement Mortality: For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2015 from the 2006 base year, and projected forward using MP-2015 on generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2015 from the 2006 base year, and projected forward using MP-2015 on generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127. Post-retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2015 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date. Post-retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2015 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Exhibit 78

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EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements and Required Supplementary Information

June 30, 2016

(With Independent Auditors' Report Thereon)

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

Table of Contents

KPMG LLP
American International Plaza
Suite 1100
250 Muñoz Rivera Avenue
San Juan, PR 00918-1819

Independent Auditors' Report

To the Retirement Board of the Government of Puerto Rico
Employees' Retirement System of
the Government of the Commonwealth of Puerto Rico:

We have audited the accompanying financial statements of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the System), which comprise the statement of fiduciary net position as of June 30, 2016, the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, which collectively comprise the System's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico as of June 30, 2016, and the changes in its fiduciary net position for the year then ended, in accordance with U.S. generally accepted accounting principles.

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Emphasis of Matters

Uncertainty about Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the System will continue as a going concern. As discussed in notes 3 and 14 to the basic financial statements, the System is severely underfunded, sold its remaining investments in the aggregate amount of approximately $297 million, and started operating on a pay as you go basis in fiscal year 2018. Additionally, on May 3, 2017 and May 21, 2017, the Financial Oversight and Management Board for Puerto Rico commenced cases for the Commonwealth of Puerto Rico and the System, respectively, by filing petitions for relief under Title III of the Puerto Rico Oversight, Management, and Economic Stability Act with the United States District Court for Puerto Rico. Accordingly, management of the System has stated that substantial doubt exists about the System's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in note 3. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis in pages 3 to 15 and the schedules in pages 67 to 70 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standard Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

San Juan, Puerto Rico
October 5, 2018

Stamp No. E351461 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

**EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT
OF THE COMMONWEALTH OF PUERTO RICO**
(A Component Unit of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis (Unaudited)

June 30, 2016

Introduction

The following discussion and analysis of the financial performance of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the System) provides an overview of its activities for the fiscal year ended June 30, 2016. Its purpose is to provide explanations and insights into the information presented in the basic financial statements and required supplementary information. This discussion and analysis is intended to be read in conjunction with the System's financial statements.

The System is a trust created by the Commonwealth of Puerto Rico (the Commonwealth) in 1951 pursuant to Act No. 447 of May 15, 1951, as amended, to provide pension and other benefits to retired employees of the Commonwealth, its public corporations and municipalities. Prior to August 23, 2017, the System was administered by the Puerto Rico Government Employees' and Judiciary Retirement Systems Administration (the ERS and JRS Administration).

Prior to August 23, 2017, the System administered a cost-sharing, multi-employer pension plan consisting of three benefit structures: (i) a cost-sharing, multi-employer, defined benefit program, (ii) a defined contribution program (the System 2000 program), and (iii) a contributory hybrid program. The System also administered postemployment healthcare benefits provided by the Commonwealth to retired plan members through the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities Medical Insurance Plan Contribution (ERS MIPC).

The System is considered an integral part of the financial reporting of the Commonwealth and is included in the Commonwealth's basic financial statements as a pension trust fund.

Overview of the Basic Financial Statements

The following discussion and analysis is intended to serve as an introduction to the System's basic financial statements. The basic financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP) as applicable to governmental organization per Governmental Accounting Standards Board (GASB) pronouncements and include the following:

- The Statement of Fiduciary Net Position presents the financial position of the System at fiscal year-end. It provides information about the nature and amounts of resources with present service capacity that the System presently controls (assets), consumption of net assets by the System that is applicable to a future reporting period (deferred outflow of resources), presents obligations to sacrifice resources that the System has little or no discretion to avoid (liabilities), and acquisition of net assets by the System that is applicable to a future reporting period (deferred inflow of resources) with the difference between assets/deferred outflow of resources and liabilities/deferred inflow of resources being reported as net position. Investments are shown at fair value. All other assets and liabilities are determined on an accrual basis.
- The Statement of Changes in Fiduciary Net Position presents the results of activities during the fiscal year. All changes affecting the assets/deferred outflow of resources and liabilities/deferred inflow of resources of the System are reflected on an accrual basis of when the activity occurred, regardless of the timing of the related cash flows. Changes in the fair values of investments are included in the year's activity as net appreciation (depreciation) in fair value of investments.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis (Unaudited)

June 30, 2016

- The Notes to the Basic Financial Statements – provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes present information about the System's accounting policies, significant account balances and activities, material risks, obligations, contingencies, and subsequent events, if any.

Required Supplementary Information is presented after the notes to the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB. It consists of information pertaining to the System's actuarial methods and assumptions and provides data on changes in the employers' net pension liability and related ratios, the pension benefits employers' contributions, and the pension benefits' investment return as well as data on the System's other postemployment benefits.

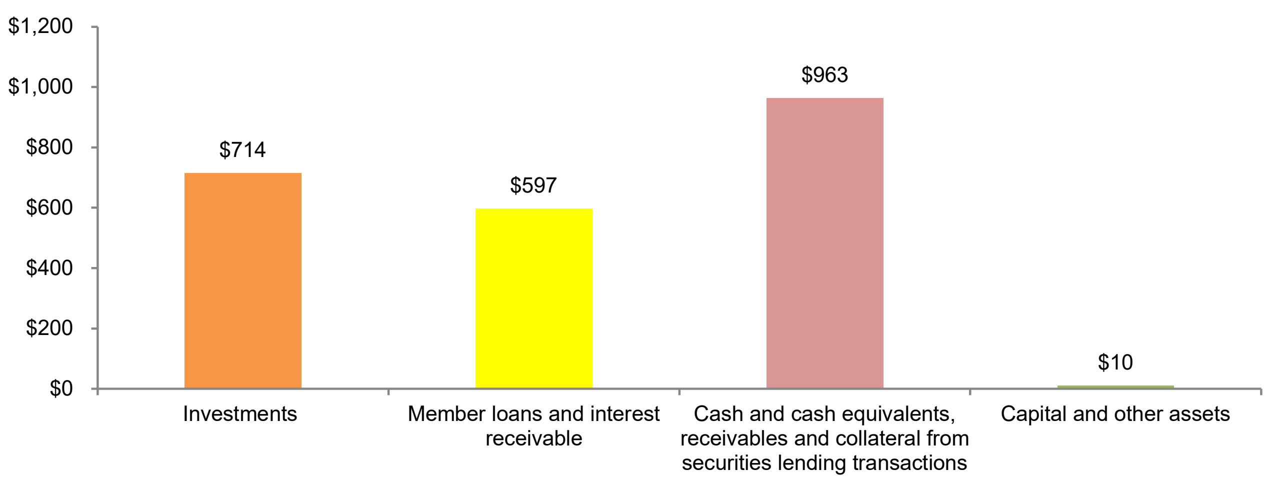
Financial Highlights

Prior to August 23, 2017, the System provides retirement benefits to employees of the Commonwealth. The System's total assets as of June 30, 2016 and 2015 amounted to approximately $2,284 million and $2,697 million, respectively.

As of June 30, 2016, the System's total assets consisted of the following:

- $667 million of investments in bonds, stocks and nonexchange commingled trust funds
- $47 million in investments in limited partnerships
- $597 million in member loans and interest receivable
- $963 million in cash and cash equivalents, receivables and collateral from securities lending transactions.
- $10 million in capital and other assets

The System's total assets as of June 30, 2016 are presented in the following chart (in millions):



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EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

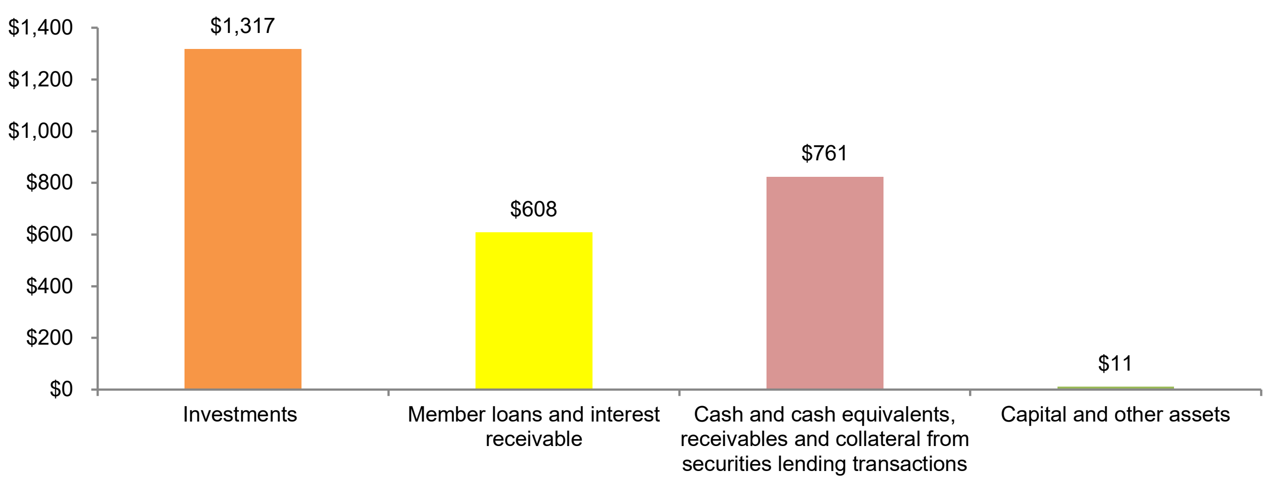
Management's Discussion and Analysis (Unaudited)

June 30, 2016

As of June 30, 2015, the System's total assets consisted of the following:

- $1,263 million of investments in bonds, stocks and nonexchange commingled trust funds
- $54 million in investments in limited partnerships
- $608 million in member loans and interest receivable
- $761 million in cash and cash equivalents, receivables and collateral from securities lending transactions.
- $11 million in capital and other assets

The System's total assets as of June 30, 2015 are presented in the following chart (in millions):



- The System has been in a deficit position since fiscal year 2015. The System's total liabilities exceeded total assets, representing a fiduciary net deficit position of approximately $1,266 million as of June 30, 2016, compared with fiduciary net position of approximately $668 million as of June 30, 2015.
- The System's fiduciary net deficit position as a percentage of the total pension liability was negative 3.47% at June 30, 2016 and 2.05% at June 30, 2015.
- The ERS MIPC, which constitutes the System's other postemployment healthcare benefits, is financed by the Commonwealth on a pay-as-you-go basis and consequently is unfunded.

**EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT
OF THE COMMONWEALTH OF PUERTO RICO**

(A Component Unit of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis (Unaudited)

June 30, 2016

The following schedules present comparative summary financial statements of the System's fiduciary net position and changes in fiduciary net position for fiscal years 2016 and 2015:

Comparative Summary of Fiduciary Net Position – Pension Benefits

	2016	2015	Total dollar change	Total percentage change
		(Dollars in thousands)		
Assets:				
Cash and cash equivalents, receivables-net and collateral from securities lending transactions	$ 962,706	761,235	201,471	26.5 %
Investments	714,214	1,316,611	(602,397)	(45.8)
Member loans and interest receivable – net	596,997	607,617	(10,620)	(1.7)
Capital assets and other	10,487	11,306	(819)	(7.2)
Total assets	2,284,404	2,696,769	(412,365)	(15.3)
Liabilities:				
Accounts payable and accrued liabilities	104,315	9,329	94,986	1,018.2
Bond interest payable	14,094	13,876	218	1.6
Payable for investment securities purchased	1,609	7,754	(6,145)	(79.2)
Securities lending obligations	19,754	80,071	(60,317)	(75.3)
Due to Commonwealth of Puerto Rico	91,474	76,613	14,861	19.4
Escrow funds of mortgage loans and guarantee insurance reserve for loans to plan members	10,467	10,212	255	2.5
Bonds payable	3,134,902	3,105,448	29,454	0.9
Other liabilities	173,673	61,738	111,935	181.3
Total liabilities	3,550,288	3,365,041	185,247	5.5
Net position (deficit)	$ (1,265,884)	(668,272)	(597,612)	89.4 %

(Continued)

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis (Unaudited)

June 30, 2016

Comparative Summary of Changes in Fiduciary Net Position – Pension Benefits

	2016	2015	Total dollar change	Total percentage change
		(Dollars in thousands)		
Additions:				
Contributions:				
Employer contributions:				
Basic benefits	$ 582,803	479,911	102,892	21.4 %
Special benefits	196,674	186,136	10,538	5.7
Member contributions	333,633	339,650	(6,017)	(1.8)
Net investment income	37,345	29,258	8,087	27.6
Other income	52,791	28,499	24,292	85.2
Total additions	1,203,246	1,063,454	139,792	13.1
Deductions:				
Benefits paid to participants	1,532,640	1,541,324	(8,684)	(0.6)
Refunds of contributions	34,937	31,351	3,586	11.4
Interest on bonds payable	196,211	194,400	1,811	0.9
General and administrative	27,670	33,623	(5,953)	(17.7)
Other expenses	9,401	11,694	(2,293)	(19.6)
Total deductions	1,800,859	1,812,392	(11,533)	(0.6)
Net decrease in net position	(597,613)	(748,938)	151,325	(20.2)
Net position (deficit):				
Beginning of year	(668,272)	80,666	(748,938)	(928.4)
End of year	$ (1,265,885)	(668,272)	(597,613)	89.4 %

Going Concern

The discussion in note 3 to the financial statements provides information regarding the System's going concern uncertainty.

The System is a mature retirement system with a significant retiree population. The System's net pension liability and fiduciary net deficit position as a percentage of the total pension liability (the funded ratio) as of June 30, 2016, were approximately $37,699 million and negative 3.47%, respectively. The System has been in a deficit position since fiscal year 2015. Based on statutory funding requirements, the annual benefit payments and administrative expenses paid by the System were significantly larger than the member and employers' contributions to the System. Due to the small asset base, investment income was insufficient to cover the negative cash flow. Illiquid assets (employers' account receivable, net, member loans and related interest

receivable, COFINA investment and investments in limited partnerships) constituted approximately $997 million or 44% of the System's total assets as of June 30, 2016. Because of the System's liquidity issues, it may be forced to sell illiquid assets, specifically member loans, potentially at significant loss to further detriment of the System.

As described in notes 3 and 14 to the basic financial statements, in July 2017, the System sold investments amounting to approximately $297 million and began operating on a "pay as you go" basis.

The System's funding requirements, together with the funding requirements of the Retirement System for the Judiciary of the Commonwealth of Puerto Rico (JRS) and the Puerto Rico System of Annuities and Pensions for Teachers (TRS, and collectively with the System and JRS, the Retirement Systems), could have a negative effect on the General Fund of the Commonwealth (the General Fund) because the Commonwealth is the primary sponsor and is obligated to make contributions to fund each of the Retirement Systems.

The Commonwealth and the other participating employers have faced significant fiscal and economic challenges in recent years due, among other factors, to continued budget deficits, a prolonged economic recession, high unemployment rate, population decline, and high levels of debt and pension obligations. The June 30, 2015 financial statements of the Commonwealth disclosed that there is substantial doubt about the Commonwealth ability to continue as a going concern.

On June 30, 2016, the U.S. Congress enacted the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA), which automatically put into effect a temporary stay of all debt-related litigation against the Commonwealth and its covered instrumentalities, including the System. On May 1, 2017, the PROMESA stay expired, permitting substantial litigation to resume against the Commonwealth and its covered instrumentalities. On May 3, 2017, the Financial Oversight and Management Board for Puerto Rico (the Oversight Board), at the request of the Commonwealth, commenced a Title III case for the Commonwealth by filing a petition for relief under Title III of PROMESA in the District Court for the District of Puerto Rico. On May 21, 2017, the Oversight Board, at the request of the System, commenced a Title III case for the System by filing a similar petition for relief under Title III of PROMESA.

On August 23, 2017, the Commonwealth enacted the Act to Guarantee the Payment to Our Pensioners and Establish a New Plan for Defined Contributions for Public Servants (Act No. 106 of 2017), which reformed the Commonwealth's pensions by, among other things, replacing the governing boards of the System, JRS, and TRS with a single Retirement Board of the Government of Puerto Rico (the Retirement Board) and established a separate "Account for the Payment of Accrued Pensions" to implement a "pay-as-you-go" (PayGo) method for the payment of pensions. Act No. 106 of 2017 created the legal framework so that the Commonwealth can make payments to pensioners through the PayGo system.

Comparative Summary of Fiduciary Net Position Analysis – Pension Benefits

The basic financial statements of the System for the fiscal year ended June 30, 2016, present a decrease in net position of approximately $598 million, resulting in a net deficit position of approximately $1,266 million as of June 30, 2016, compared with a net position of approximately $668 million as of June 30, 2015. The decrease in the net position (increase in deficit) in fiscal year 2016 resulted from excess deductions (mainly consisting of benefits paid to participants) over additions (mainly consisting of contributions from participating employers and

employees). The decrease in net position is primarily caused by a decrease in investments of approximately $602 million in fiscal year 2016.

Total contributions from participating employers and members increased by approximately $107 million, from $1,005 million during fiscal year 2015 to approximately $1,113 million during fiscal year 2016. Total net investment and securities lending transaction income increased by approximately $8 million, from approximately $29 million during fiscal year 2015 to approximately $37 million during fiscal year 2016. The System recognized a net appreciation in the fair value of investments of approximately $870,000 during 2016, compared with a net depreciation in the fair value of investments of approximately $46 million recognized in 2015. In addition, the System recognized an impairment loss on deposits with a governmental bank of approximately $21 million in fiscal year 2016. For additional information regarding the System's investments and securities lending transactions, refer to note 6.

Total deductions decreased by approximately $12 million in fiscal year 2016, mainly as a result of the decrease of approximately $9 million in benefits paid to participants and the decrease of approximately $6 million in general and administrative expenses. The total aggregate amount of benefits paid to participants was approximately $1,533 million for fiscal year 2016, as compared to approximately $1,541 million for fiscal year 2015. General and administrative expenses were approximately $28 million for fiscal year 2016, as compared to approximately $34 million for fiscal year 2015.

During fiscal year 2007, the Board of Trustees approved the issuance of bonds payable to increase the funds available to pay pension benefits to certain beneficiaries and to reduce the unfunded accrued actuarial liability. As of June 30, 2016, the total aggregate amount of outstanding bonds payable was approximately $3,135 million.

Other Postemployment Healthcare Benefits

Other postemployment healthcare benefits paid during fiscal year 2016 under the ERS MIPC amounted to approximately $94 million, a decrease of approximately $3 million or 3.7% as compared to the approximately $97 million paid during fiscal year 2015. Effective July 1, 2013, no benefits are provided to new retirees, as required under Act No. 3.

Financial Analysis of the System

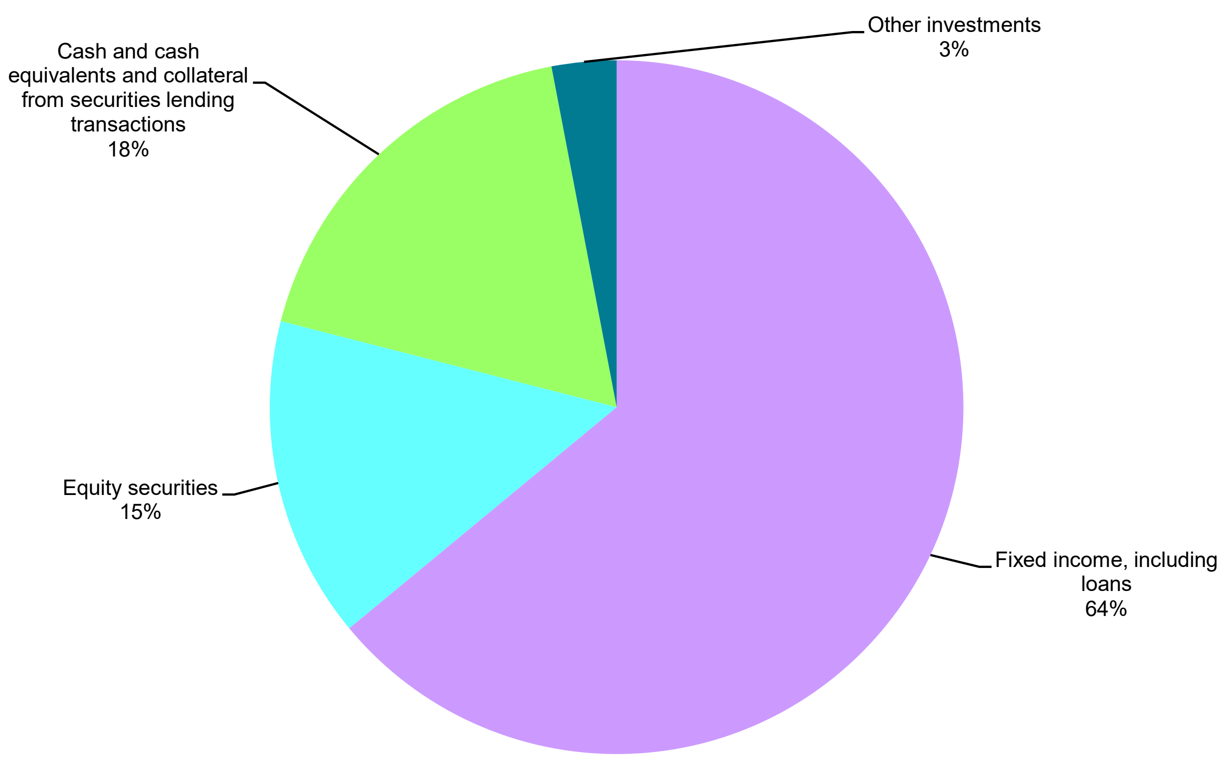
As of June 30, 2016 and 2015, the System held approximately $597 million and $608 million, respectively, in loans and interest receivable from plan members, which represents 46% and 32%, respectively, of the total investment portfolio, including loans. As of June 30, 2016, member loans and interest receivable consisted of $170 million in mortgage loans, $351 million in personal loans, $45 million in cultural trips loans, and $34 million in interest receivable, less $3 million in allowance for adjustments and losses in realization. As of June 30, 2015, member loans and interest receivable consisted of $171 million in mortgage loans, $360 million in personal loans, $41 million in cultural trips loans, and $37 million in interest receivable, less $2 million in allowance for adjustments and losses in realization. As of June 30, 2016 and 2015, the fair value of the System's investment in limited partnerships was approximately $47 million, which represented approximately 4% and 3% of the investment portfolio, as of June 30, 2016 and 2015, respectively.

The System earns additional investment income by lending investment securities to brokers via its custodian's securities lending program. The brokers provide collateral to the System and generally use the borrowed securities to cover short sales and failed trades. The cash collateral received from the brokers is invested in a short-term investment fund in order to earn interest. For the fiscal years ended June 30, 2016 and 2015, net income from the securities lending activity amounted to approximately $113,000 and $165,000, respectively.

Investment Portfolio and Capital Markets Overview

The System's total investment assets, including member loans, collateral from securities lending transactions and cash and cash equivalents (investment portfolio, including loans), as of June 30, 2016 totaled approximately $1,985 million. Member loans amounted to $597 million as of June 30, 2016.

As of June 30, 2016, the System's investment portfolio allocation, including member loans, was 64% in fixed-income investments, including loans receivable, 15% in equity securities, 18% in cash and short-term investments, and 3% in other investments as shown in the following chart:



Economy and Capital Markets Overview

The relatively benign market conditions in late 2015 were merely a pleasant pause in an otherwise challenging market environment, characterized by uncertainty and volatility. Volatile market action and overall risk-off mentality remained as the global financial markets wrestled with fragile global economic growth, central bank actions, currency volatility, weak energy/commodity prices, geopolitical concerns and the U.S. Presidential election. After a generally positive start to the second quarter 2016, uncertainty and volatility returned by quarter end. Among the major developments were the unexpected Brexit vote and the continued slide of global bond yields.

In this environment, currency volatility increased, particularly surrounding the Brexit vote, leaving the U.S. dollar with mixed results. Commodity prices extended their recent gains. During the recent quarter, the U.S. dollar increased relative to the British pound and euro. Alternatively, the Japanese yen rallied over 9.0% versus the dollar, and many emerging market currencies also advanced. Global commodity prices trended higher pushing the Bloomberg (formerly known as DJUBS) Commodity Total Return index up over +12.0%, led by energy prices. Crude oil (WTI) prices rose about 26% back over the $50 mark during June but finished the quarter at $48. Natural gas prices also shot up late in the quarter. Benefitting from the increased uncertainty, gold prices extended their gains, rising about 7.2%.

Global equity markets were mixed in the second quarter. The ACWI ex U.S. index was down 0.6% in U.S. dollar terms (0.1% local) and is down 1.0% (-4.1% local) for the year to date. Led by Latin American countries, the MSCI Emerging Markets index finished the quarter about 0.7% higher. In the U.S. markets, the S&P 500 increased 2.5% including dividends, raising the year-to-date return to 3.8%. For the quarter, the best performing sectors (S&P 500) were more yield-oriented – Energy, Telecom and Utilities. REITs were up over 13.5% through June 30, 2016. Small cap stocks outperformed. The Russell 2000 Index posted a quarterly gain of 3.8%, returning to positive territory for the year through June 30, 2016, while the NASDAQ decreased 1.1% lowering its year-to-date return to -3.2%. Value significantly outperformed for the quarter and the year to June 30, 2016.

As noted above, global bond yields further declined during the quarter. As of June 30, 2016, the U.S. 10-year Treasury yield decreased by approximately 28 basis points to 1.5%. The Barclays Aggregate Bond index added 2.2% for the quarter, resulting in a 5.3% gain for the year to date. Government bond yields in Europe also extended their slide with even the German bund yield dipping into negative territory. Credit spreads narrowed in the U.S. markets as the high yield sector rallied led by the energy complex which rebounded by double-digits. The BoAML U.S. High Yield index increased 5.9% raising the year-to-date return to 9.3%. The S&P/LTSA Leveraged Loan index increased 2.9%.

Industry Indices Performance Overview

Total Fund Performance

The System's total investment portfolio, including member loans, returned 2.8% while total investments, excluding loans returned 3.4% during the 2016 fiscal year, modestly underperforming its policy benchmark by 0.6% points. Underperformance was primarily due to an underweight allocation to domestic equities relative to the long-term target weights.

United States Equity Overview for the Fiscal Year 2016

The System's domestic equity component returned 3.7% during the fiscal year, outperforming its benchmark, the Russell 3000 Index Fund, by 0.1 percentage points. Outperformance was due to the impact of cash flow timing and withdrawals. The Russell 3000 Index Fund matched its benchmark during the period. Approximately $175 million was redeemed from the domestic equity component during the fiscal year in order to meet the cash needs of the System. As of June 30, 2016, the total amount of the System's domestic equity assets was System's domestic equity assets totaled approximately $160 million and represented approximately 11% of the System's total investment portfolio, including member loans.

International Equity Overview for the Fiscal Year 2016

International equities, as measured by the MSCI ACW ex-U.S. Index, returned negative 1%. Developed international equities returned negative 0.8% as measured by the MSCI EAFE Index. Japan was the strongest performing region during the period. Emerging market equities as represented by the MSCI Emerging Markets Index returned 1.2%.

During the fiscal year ended June 30, 2016, the System's international equity component returned negative 0.8%, outperforming its benchmark by 0.2% points. Outperformance was due to modest positive tracking error during the period. Approximately $49.0 million was redeemed from the component during the fiscal year in order to meet the cash needs of the System. At the end of the fiscal year, the component had approximately $59.2 million in assets, representing 4% of the System's total investment portfolio, including member loans.

United States Fixed Income Overview for the Fiscal Year 2016

The broad U.S. fixed income market, as measured by the Barclays Aggregate Bond Index, returned 4.9% during the period. The Barclays Intermediate Credit Index, the System's benchmark for its fixed income portfolio, slightly trailed the broader U.S. fixed income market and returned 4.9%. All underlying sectors generated positive returns during the period, with the government bond and mortgage backed securities sectors providing the strongest returns. Longer duration bonds outperformed shorter duration bonds, while higher quality maturities outpaced those of lower quality.

The System's fixed income component gained 5.2% during the fiscal year ended June 30, 2016, modestly outperforming its benchmark by 0.3 percentage points. Chicago Equity Partners was the only outperforming manager, while Mesirow, Taplin Canida & Habacht, Popular, Santander and Barrow Hanley detracted from results. The SSGA Intermediate Credit Index Fund matched its benchmark during the period. At the end of the fiscal year, fixed income investment portfolio assets totaled approximately $361.2 million, consisting of approximately 24.1% of the System's total investment portfolio, including member loans. Approximately $553 million was redeemed from the component during the fiscal year in order to meet the cash needs of the System.

Other Investments and Member Loans Transactions

As of June 30, 2016, the System held approximately $597 million in member loans, which represented 40% of the total investment portfolio, including loans. Member loan balances as of June 30, 2016 were $11 million lower than the prior year.

At the end of fiscal year 2016, the System had some exposure to limited partnerships of private equity investments valued at approximately $48 million, which represented 3.4% of the System's total investment portfolio, including member loans.

In order to cover its deficiency of Commonwealth's employee and employer contributions under benefit payments to participants, the System liquidated part of its investment portfolio and transferred approximately $637 million to the Commonwealth in fiscal year 2016.

Funding Status

The System was created under Act No. 447 in 1951 and, since its inception, has lacked proper planning. Contribution levels were relatively low and remain low in comparison to the level of benefits. As more people joined the government labor force and then retired under the System's various benefit structures, the gap between the assets available to pay benefits and the actuarial obligation started to increase.

During 2007, in an effort to increase the funds available to pay pension benefits and to reduce the unfunded accrued actuarial pension liability, the System authorized the issuance of one or more series of bonds (the Bonds). As a result of these issuances, the System pledged future employers' contributions to the payment of the Bonds, invested the proceeds of the Bonds, and used those investments and the earnings thereon to provide pension benefits to beneficiaries. Specifically, on January 31, 2008, the System issued the first series of Bonds, which consisted of approximately $1,589 million aggregate principal amount of Senior Pension Funding Bonds, Series A. On June 2, 2008, the System issued the second of such series of Bonds, which consisted of approximately $1,059 million aggregate principal amount of Senior Pension Funding Bonds, Series B. Finally, on June 30, 2008, the System issued the third and final of such series of Bonds, which consisted of approximately $300 million aggregate principal amount of Senior Pension Funding Bonds, Series C.

Despite these efforts, the System's actuarial obligation continued its upward trend as a result of the continuous increase in the number of covered pensioners and the higher salaries of incoming pensioners, which resulted in even higher annuities under Act No. 447. The bottom line is that the capital markets alone cannot solve the System's funding problem.

Additionally, the Commonwealth has enacted a series of laws to deal with the funding issues that the System has experienced. For example, in 2011, the Commonwealth enacted Act No. 116, which increased the employers' contribution rate from 9.275% to 10.275% of employee compensation for the 2011-2012 fiscal year, 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. Other measures taken to improve the System's funding, included: (1) improving the collection of late contributions by receiving such contributions directly from the Municipal Revenue Collection Center (known as CRIM by its Spanish acronym) when a municipality fails to send their contributions within 30 days from the due date or from the Department of Treasury of the Commonwealth in the case of public corporations; (2) implementing Act No. 70, which established early retirement incentives; (3) revising the Employee Personal Loan Policy by reducing personal and cultural loan amounts to $5,000 each, from $15,000 and $10,000, respectively; and (4) receiving approximately $162.5 million in bonds issued by the Puerto Rico Sales Tax Financing Corporation (known as COFINA by its Spanish acronym).

In 2013, the Commonwealth enacted Act No. 3 that reformed the System by, among other measures, reducing benefits, increasing employee contributions, and, in the case of active employees who were entitled to the defined benefits program, replacing most of the defined benefit elements of the system with a defined contribution system. Based on the statutory funding requirements prior to this reform, the annual benefit payments and administrative expenses of the System were significantly larger than the member and employer contributions made to the System.

Act No. 3 amended Act No. 447, Act No. 1 of 1990 (Act No. 1) and Act No. 305 (collectively, the ERS Acts) to establish, among other things, a defined contribution program similar to the System 2000 program (the Contributory Hybrid Program) to be administered by the System. All regular employees hired for the first time on or after July 1, 2013, became part of the Contributory Hybrid Program. Also, Act No. 3 froze all retirement benefits accrued through June 30, 2013 under the Defined Benefit Program, and thereafter, all future benefits accrued under the defined contribution formula used for the 2000 System participants. Ceasing future defined benefit accruals under Act No. 447 and Act No. 1 and converting to a member-funded hybrid plan will result in lower benefit payments as these tiers wind down and will make all future employer contributions available to pay benefits and bonds payable debt service.

On June 27, 2017, the Treasury Department issued Circular Letter No. 1300-46-17 in order to convey to central government agencies, public corporations and municipalities the new implementation procedures to adopt, effective July 1, 2017, a new "pay-as-you-go" (PayGo) mechanism for the System. With the start of fiscal year 2018, employers' contributions, contributions ordered by special laws, and the Additional Uniform Contribution were all eliminated. The System will determine and administer the payment amount per retiree that will be charged to each agency, public corporation and municipality.

In addition to the establishment of the PayGo mechanism, Act No. 106, reformed the Commonwealth's Retirement Systems so that their active participants would deposit their individual contributions in a new Defined Contributions Plan that will be managed by a private entity. Act No. 106 created the legal framework so that the Commonwealth can make payments to pensioners through the PayGo system. Approximately $2 billion was allocated for these purposes in each of the budgets for fiscal year 2018 and fiscal year 2019. Act No. 106 also created a Defined Contributions Plan, similar to a 401(k) plan, which requires contributions from public servants because future benefits will not be paid by the Retirement Systems.

As of June 30, 2016, the System's pension plan consisted of three different benefit structures, which are administered according to their specifications in each ERS Act. For all plan members, employee contributions range from 8.275% to 10% of the employee salary, as specified by the employee. Under all structures, employers' contributions during the year ended June 30, 2016 were 13.275% of the employee salary. Based on the last actuarial valuation as of June 30, 2016, the total amount of the employers' net pension liability was approximately $37,660 million, with the pension plan's fiduciary net deficit position as a percentage of the total pension liability of negative 3.37%. The liability for postemployment healthcare benefits under ERS MIPC amounted to approximately $1,349 million as of June 30, 2016 and was fully unfunded.

Capital Assets

The total aggregate amount of the System's investment in capital assets (net of accumulated depreciation) was approximately $9.7 million and $10.5 million as of June 30, 2016 and June 30, 2015, respectively. Capital assets include land, buildings and improvements, construction in progress, and equipment. Buildings and improvements consist of the facilities in which the System conducts its operations.

Debt Administration

Long-term debt obligations include the System's senior bonds in the aggregate principal amount of approximately $3,135 million and $3,105 million as of June 30, 2016 and June 30, 2015, respectively. The System has issued three series of revenue Bonds designated as "Senior Pension Funding Bonds", the proceeds of which have been used mainly to increase the funds currently available to pay pension benefits to certain of its beneficiaries and reduce its unfunded actuarial accrued liability. The Bonds are limited, nonrecourse obligations of the System, payable solely from and secured solely by a pledge of employer contributions made after the date of issuance of the first series of Bonds, and from funds held on deposit with the Bank of New York Mellon (the Fiscal Agent). The Bonds are not payable from contributions made to the System by participating employees, or from the assets acquired with the proceeds of the Bonds, or from employer contributions released by the Fiscal Agent to the System after funding of required reserves, or from any other assets of the System. These bonds are currently rated "C" by Moody's Investors Service and "CC" by Standard & Poor's Ratings Services. For additional information regarding the System's long-term obligations, refer to note 10. For additional information regarding the suspension of the monthly payments to the trustee of the System's bonds in July 2016 and other subsequent events, refer to note 14.

Requests for Information

This financial report is designed to provide a general overview of the System's finances, comply with related laws and regulations, and demonstrate commitment to public accountability. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Commonwealth of Puerto Rico Government Employees and Judiciary Retirement Systems Administration, Avenida José de Diego, Parada 22 Centro Gubernamental Minillas Edifico Torre Norte, Piso 11, San Juan, Puerto Rico, 00940.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Fiduciary Net Position

June 30, 2016

(In thousands)

	Pension	Post employment healthcare benefits	Total
Assets:			
Cash and cash equivalents:			
Deposits with Government Development Bank for Puerto Rico (GDB):			
Unrestricted	$ 162,324	—	162,324
Restricted	48,441	—	48,441
Deposits at commercial banks:			—
Unrestricted	242,779	—	242,779
Restricted	12,608	—	12,608
Money market funds:			
Unrestricted	59,361	—	59,361
Restricted	126,528	—	126,528
U.S. Treasury bill – restricted	170	—	170
Total cash and cash equivalents	652,211	—	652,211
Receivables, net:			
Employers – net of allowance for uncollectible accounts of $250,834	258,801	—	258,801
Due from Retirement System for the Judiciary of the Commonwealth of Puerto Rico	7,854	—	7,854
Investments sold	738	—	738
Accrued investment income	8,348	—	8,348
Other	15,000	—	15,000
Total receivables, net	290,741	—	290,741
Collateral from securities lending transactions	19,754	—	19,754
Investments:			
Bonds and notes	445,891	—	445,891
Nonexchange commingled trust funds	219,585	—	219,585
Investments in limited partnerships	47,461	—	47,461
Stocks	1,277	—	1,277
Total investments	714,214	—	714,214
Member loans and interest receivable – net	596,997	—	596,997
Capital assets – net	9,733	—	9,733
Other assets	754	—	754
Total assets	2,284,404	—	2,284,404

(Continued)

**EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT
OF THE COMMONWEALTH OF PUERTO RICO**

(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Fiduciary Net Position

June 30, 2016

(In thousands)

		Pension	Post employment healthcare benefits	Total
Liabilities:				
Accounts payable and accrued liabilities	$	104,315	—	104,315
Bond interest payable		14,094	—	14,094
Payable for investment securities purchased		1,609	—	1,609
Securities lending obligations		19,754	—	19,754
Due to Commonwealth of Puerto Rico		91,474	—	91,474
Escrow funds of mortgage loans and guarantee insurance reserve for member loans		10,467	—	10,467
Bonds payable		3,134,902	—	3,134,902
Other liabilities		173,674	—	173,674
Total liabilities		3,550,289	—	3,550,289
Contingencies (note 13)				
Unrestricted net deficit position	$	(1,265,885)	—	(1,265,885)

See accompanying notes to basic financial statements.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Changes in Fiduciary Net Position

Year ended June 30, 2016

(In thousands)

	Pension	Post employment healthcare benefits	Total
Additions:			
Contributions:			
Employer contributions:			
Basic benefits, net of provision for uncollectible contributions of $40,085	$ 582,803	—	582,803
Special benefits	196,674	93,728	290,402
Member contributions	333,633	—	333,633
Total contributions	1,113,110	93,728	1,206,838
Investment income:			
Net appreciation in fair value of investments	870	—	870
Impairment loss on deposits with governmental bank (note 6)	(20,935)	—	(20,935)
Interest	59,651	—	59,651
Dividends	277	—	277
Less investment expense, other than from securities lending	(2,631)	—	(2,631)
Net income from investing, other than from securities lending	37,232	—	37,232
Securities lending income	113	—	113
Less securities lending expenses	—	—	—
Net income from securities lending	113	—	113
Net investment income	37,345	—	37,345
Other income	52,791	—	52,791
Total additions	1,203,246	93,728	1,296,974
Deductions:			
Benefits paid to participants:			
Annuities	1,322,408	—	1,322,408
Special benefits	196,674	93,728	290,402
Death benefits	13,558	—	13,558
Refunds of contributions	34,937	—	34,937
Interest on bonds payable	196,211	—	196,211
General and administrative	27,670	—	27,670
Other expenses	9,401	—	9,401
Total deductions	1,800,859	93,728	1,894,587
Net decrease in net position	(597,613)	—	(597,613)
Net position (deficit):			
Beginning of year	(668,272)	—	(668,272)
End of year	$ (1,265,885)	—	(1,265,885)

See accompanying notes to basic financial statements.

(1) Organization

The Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the System) is a trust created by the Legislature of the Commonwealth of Puerto Rico (the Commonwealth) pursuant to Act No. 447 on May 15, 1951 (Act No. 447), as amended, to provide pension and other benefits to retired employees of the Commonwealth, its public corporations and municipalities. Prior to August 23, 2017, the System administered a cost-sharing, multi-employer, pension plan (the pension plan). The System also administers post-employment healthcare benefits provided by the Commonwealth to retired plan members (the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities Medical Insurance Plan Contribution – ERS MIPC), an unfunded, cost-sharing, multi-employer defined benefit other postemployment benefit plan.

The System is considered an integral part of the Commonwealth's financial reporting entity and is included in the Commonwealth's basic financial statements as a pension trust fund. The System is a governmental retirement plan and as such is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). Income earned by the System is not subject to Federal and Puerto Rico taxes.

Pursuant to Act No. 447, the System was governed by an 11-member board of trustees (the Board of Trustees), composed of (i) the following ex-officio members (or their designees): the Secretary of Treasury of the Commonwealth, the President of the Government Development Bank for Puerto Rico (GDB), the Commissioner of Municipal Affairs, and the Director of the Office of Human Resources of the Commonwealth; (ii) three members appointed to three-year terms by the Governor of the Commonwealth (the Governor), two of whom had to be members of the System and one member of Retirement System for the Judiciary of the Commonwealth of Puerto Rico (JRS), each with at least ten years of credited service; (iii) two members who had to be pensioners of the System and JRS; (iv) the President of the Federation of Mayors; and (v) the President of the Association of Mayors. As of June 30, 2016, the System was governed by the Board.

On August 23, 2017, Act No. 106 replaced the Board with a new Retirement Board of the Government of Puerto Rico (the Retirement Board), which governs all of the Commonwealth's Retirement Systems. The Retirement Board is comprised of 13 members, of (i) the following ex-officio members (or their designees): the Executive Director of the Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA); the Secretary of Treasury of the Commonwealth, the Director of the Office of Management and Budget, the Director of the Office for the Administration and Transformation of Human Resources of the Government of Puerto Rico, the President of the Federation of Mayors, and the President of the Association of Mayors; (ii) three Governor-appointed representatives of the teachers of the Department of Education, the public corporations, and the Judiciary Branch; and (iii) four additional Governor-appointed members as representatives of the public interest. As of the date of these financial statements, there are three vacancies on the Retirement Board. For additional information on Act No. 106, refer to note 12.

Prior to August 23, 2017, the System and JRS, also a component unit of the Commonwealth, were both administered by Puerto Rico Government Employees and Judiciary Retirement Systems Administration (the ERS and JRS Administration (the ERS and JRS Administration). The ERS and JRS Administration allocated 97.93% of its general and administrative expenses to the System during the year ended June 30, 2016. The methodology used to determine the allocation is based on total employer's and participating employees' contributions to the System, divided by the aggregate total of employers' and participating employees' contributions to the System and JRS, combined.

(2) Summary of Significant Accounting Policies

The following are the significant accounting policies followed by the System in the preparation of its financial statements:

(a) Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP) as applicable to governmental organizations per the Governmental Accounting Standards Board (GASB) pronouncements. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has legal requirement to provide the contributions. Benefits and refunds are recognized when legally due and payable.

(b) Use of Estimates

The preparation of the basic financial statements requires management to make significant estimates and assumptions relating to the reporting of assets and liabilities and in the disclosures of contingencies to prepare these financial statements in conformity with GAAP. The System's most significant estimates relate to the total pension liability, and the valuation of certain investments. Due to the inherent nature of these estimates, actual results could differ from those estimates.

(c) Cash and Cash Equivalents

Cash equivalents include all highly liquid debt instruments with original maturities of three months or less from the date of acquisition and consist of money market funds, U.S. Treasury bill, and certificates of deposit in GDB (a component unit of the Commonwealth) and in commercial banks. Restricted cash deposited with GDB consists of payments received from mortgage loan holders in the servicing of loans (escrow accounts), expired checks not claimed by the plan members restricted for repayments, and temporary amounts to be transferred to the Bank of New York Mellon (trustee) restricted for bond debt service requirements. Restricted money market funds consist of funds held by the trustee to maintain the debt service funds and the sinking funds for the repayment of the System's bonds payable.

(d) Investments

Investments are reported at fair value. The fair value of investments is based on quoted prices, if available. The System has investments in limited partnerships and nonexchange commingled trust funds valued at approximately $47 million and $220 million, respectively, as of June 30, 2016. Fair values of investments in limited partnerships have been estimated in the absence of readily determinable fair values, based on information provided by the underlying fund managers. Nonexchange commingled trust funds are reported at their net asset value (NAV). The NAV includes the market value of the securities in the fund plus any receivables, payables, and accrued fund expenses.

Securities purchases and sales are recorded on a trade-date basis. Realized gains and losses from the sale of securities and unrealized changes in the fair value of outstanding securities are included in net appreciation (depreciation) in fair value of investments. Realized gains and losses are computed as the difference between the proceeds of the sale and the cost of the investment sold, determined by the average cost method. Interest income is recorded as earned on an accrual basis. Dividend income is recorded on the ex-dividend date.

(e) Member Loans

Mortgage, personal, and cultural trip loans to plan members are stated at their outstanding principal balance less an allowance for uncollectible amounts. The maximum amount that was loaned to plan members for mortgage loans is $100,000 and $5,000 for personal, and cultural trip loans.

The System services mortgage loans with aggregate principal balances of approximately $170 million as of June 30, 2016, related to certain mortgage loans sold to the Federal National Mortgage Association for a fee of 0.25%. The sale contract stipulates that the System must repurchase any loans with payments in arrears over 90 days.

(f) Guarantee Insurance Reserve for Member Loans

Premiums collected and benefits claimed are recorded as additions and deductions, respectively. The guarantee insurance reserve for life insurance on member loans is revised each year and adjusted accordingly based on the annual higher claim amount of a five-year period increased by a management determined percentage.

(g) Capital Assets

Capital assets include building, building improvements, and furniture and equipment. The System defines capital assets as assets with an initial individual cost of $500 or more at the date of acquisition and a useful life equal to or in excess of four years. Capital assets are recorded at historical cost, or their estimated historical cost, if actual historical costs are not available. Donated capital assets are recorded at their estimated fair value at time of donation.

Capital assets are depreciated on the straight-line method over the assets estimated useful life. There is no depreciation recorded for construction in progress. The estimated useful lives of capital assets are as follows:

	Years
Building	50
Buildings improvements	10
Equipment, furniture, fixtures, and vehicles	5–10

(h) Termination Benefits

The System accounts for termination benefits in accordance with GASB Statement No. 47, *Accounting for Termination Benefits*. Pursuant to the provisions of GASB Statement No. 47, the System, as an employer, should recognize a liability and expense for voluntary termination benefits (for example, early retirement incentives) when the offer is accepted and the amount can be estimated. A liability and expense for involuntary termination benefits (for example, severance benefits) should be recognized when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees, and the amount can be estimated.

(i) Recently Issued Accounting Pronouncements

The following new accounting standards have been issued but were not effective during the fiscal year ending June 30, 2016:

- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined-contribution other postemployment benefit (OPEB)) plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures*. The scope of this Statement includes OPEB plans – defined benefit and defined contribution – administered through trusts that meet the following criteria:
  - Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
  - OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
  - OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined-benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria. The provisions of this statement are effective for fiscal years beginning after June 15, 2016. The System is evaluating the impact of this new statement.

- GASB Statement No. 82, *Pension Issues – an Amendment of GASB Statements No 67, No. 68 and No. 73*. This Statement addresses certain issues that have been raised with respect to GASB Statements No. 67, No. 68, and No. 73. The Statement is designed to improve consistency in the application of the pension standards by clarifying or amending related areas of existing guidance. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. Prior to the issuance of this Statement, GASB Statements No. 67 and No. 68 required presentation of covered-employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, and ratios that use that measure, in schedules of required supplementary information. This Statement amends GASB Statements No. 67 and No. 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure. This Statement clarifies that a deviation, as the term is used in Actuarial Standards of Practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standard of Practice is not considered to be in conformity with the requirements of GASB Statement No. 67, GASB Statement No. 68, or GASB Statement No. 73 for the selection of assumptions used in determining the total pension liability and related measures. This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of GASB Statement No. 67 and as employee contributions for purposes of GASB Statement No. 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits). This Statement is not effective until fiscal year 2017, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The System is evaluating the impact of this new statement.

- GASB Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (including both pensions and OPEB). The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2017. The System is evaluating the impact of this new statement.
- GASB Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2019. The System is evaluating the impact of this new statement.
- GASB Statement No. 88, *Certain disclosures related to debt*, *including direct borrowings and direct placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2018. The System is evaluating the impact of this new statement.

(3) Going Concern

As of June 30, 2016, the System was severely underfunded. As of June 30, 2016 the System's net pension liability was approximately $37,699 million and its fiduciary net position was approximately negative $1,266 million. The Commonwealth and the other participating employers have been facing significant fiscal and economic challenges in recent years due to, among other factors, continued budget deficits, a prolonged economic recession, high unemployment, population decline, and high levels of debt and pension obligations that have significantly inhibited their ability to make employer contributions to the System. Accordingly, the annual benefit payments and administrative expenses paid by the System have been significantly larger than the member and employers' contributions, resulting in the System going into a deficit position in fiscal year 2016.

On May 2, 2017, the legal shield granted by the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) protecting the Commonwealth from debt-related lawsuits expired. On May 3, 2017, the Commonwealth filed a petition for protection under Title III of PROMESA to ensure the essential services to the public, the payment of the government payroll and the suppliers.

Faced with the eventual insolvency of the System and the inability to reach a consensual restructuring agreement with the System's creditors, on May 21, 2017, the Governor submitted a letter to the Financial Oversight and Management Board for Puerto Rico created by PROMESA (the Oversight Board) stating that the System desired to effect a plan to adjust its debts under Title III of PROMESA. Also, on May 21, 2017, the Oversight Board filed a petition for the System in the United States District Court for the District of Puerto Rico, commencing a Title III case for the System. On June 15, 2017, the United States Trustee appointed an Official Committee of Retired Employees in the Commonwealth's Title III cases. As further described in note 14.E., in the System sold investments in July 2017 in the total amount of approximately $297 million.

Management's Conclusion on Going Concern Consideration

Based on the fiscal and financial difficulties of both the Commonwealth and the System discussed above, management believes there is substantial doubt about the ability of the System to continue as a going concern.

Management's Remediation Plan

On June 27, 2017, the Treasury Department issued Circular Letter No. 1300-46-17 in order to convey to the central government agencies, public corporations and municipalities the new implementation procedures to adopt, effective July 1, 2017, a new PayGo mechanism for the payment of pensions. Subsequently, on August 23, 2017, the Governor signed into law Act No. 106, which established by law the PayGo system for the payment of accumulated pension benefits and reformed the Commonwealth's Retirement Systems so that their active participants would deposit their individual contributions in a new Defined Contribution Plan among other significant changes. For additional information on the PayGo mechanism and Act No. 106, refer to note 14.

Act No. 106 also suspended the System's loan program and seeks to reduced general and administrative expenses mostly through employee attrition due to normal retirement and reduction in professional services contracts.

(4) Plan Description

Pension Benefits

The System administers different benefit structures pursuant to Act No. 447, as amended, including a cost-sharing, multi-employer, defined benefit program, a defined contribution program (System 2000 program) and a contributory hybrid program. Benefit provisions vary depending on member's date of hire. Substantially all full-time employees of the Commonwealth and its instrumentalities (73 Commonwealth agencies, 78 municipalities, and 55 public corporations, including the System) are covered by the System. Membership is mandatory for all regular, appointed, and temporary employees of the Commonwealth at the date of employment. Membership is optional for the Governor, Commonwealth secretaries, and the heads of public agencies and instrumentalities, among others.

At July 1, 2015, membership of the System consisted of the following:

Retirees and beneficiaries currently receiving benefits	109,649
Current participating employees – defined benefit	54,074
Current participating employees – System 2000 and Act No. 3	65,605
Disabled members, receiving benefits	15,444
Total membership	244,772

The benefits provided to members of the System are established by Commonwealth law and may be amended only by the Legislative Assembly of Puerto Rico (the Legislative Assembly) with the Governor's approval. Act No. 3, in conjunction with other recent funding and design changes, provided for a comprehensive reform of the System. This summary details the provisions under Act No. 3.

Certain provisions are different for the three groups of members who entered the System prior to July 1, 2013 as described below:

- Members of Act No. 447 are generally those members hired before April 1, 1990 (contributory, defined benefit program).
- Members of Act No. 1 are generally those members hired on or after April 1, 1990 and on or before December 31, 1999 (contributory, defined benefit program).
- Members of Act No. 305 (or System 2000) are generally those members hired on or after January 1, 2000 and on or before June 30, 2013 (defined contribution program).

All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the defined benefit program and the System 2000 program, and were rehired on or after July 1, 2013, become members of the Contributory Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013 were participants of previous programs became part of the Contributory Hybrid Program on July 1, 2013.

Each member has a nonforfeitable right to the value of his or her account. Members have three options to invest their contributions. Investment income is credited to the member's account semi-annually. The Commonwealth does not guarantee benefits at retirement age.

The assets of the defined benefit program, the defined contribution program and the Contributory Hybrid Program are pooled and invested by the System. Future benefit payments will be paid from the same pool of assets.

This summary of the System's plan provisions is intended to describe the essential features of the plan. All eligibility requirements and benefit amounts shall be determined in strict accordance with the applicable plan documents.

(a) Service Retirements

(1) *Eligibility for Act No. 447 Members* – Act No. 447 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 447 members could retire upon (1) attainment of age 55 with 25 years of credited service, (2) attainment of age 58 with 10 years of credited service, (3) any age with 30 years of credited service, (4) for Public Officers in High Risk Positions (the Commonwealth Police and Firefighter Corps, the Municipal Police and Firefighter Corps and the Custody Office Corps), attainment of age 50 with 25 years of credited service, and (5), for Mayors of municipalities, attainment of age 50 with 8 years of credited service as a Mayor. In addition, Act No. 447 members who attained 30 years of credited service by December 31, 2013 are eligible to retire at any time.

Act No. 447 members who were not eligible to retire as of June 30, 2013 and did not attain 30 years of credited service by December 31, 2013 are eligible to retire upon attainment of the retirement eligibility age shown in the table below with 10 years of credited service.

Date of birth	Attained age as of June 30, 2013	Retirement eligibility age
July 1, 1957 or later	55 or less	61
July 1, 1956 to June 30, 1957	56	60
Before July 1, 1956	57 and up	59

In addition to the requirements in the table above, Act No. 447 provides that Public Officers in High Risk Positions who were not eligible to retire as of June 30, 2013 and did not attain 30 years of credited service by December 31, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

(2) *Eligibility for Act No. 1 Members* – Act No. 1 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 1 members could retire upon (1) attainment of age 55 with 25 years of credited service, (2) attainment of age 65 with 10 years of credited service, (3) for Public Officers in High Risk Positions, any age with 30 years of credited service, and (4) for Mayors, attainment of age 50 with 8 years of credited service as a Mayor.

Act No. 1 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 65 with 10 years of credited service. In addition, Act No. 1 Public Officers in High Risk Positions who were not eligible to retire as of June 30, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

(3) *Eligibility for System 2000 Members* – System 2000 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, System 2000 members could retire upon attainment of age 55 for Public Officers in High Risk Positions and attainment of age 60 otherwise.

System 2000 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 55 for Public Officers in High Risk Positions and upon attainment of the retirement eligibility age shown in the table below otherwise.

Date of birth	Attained age as of June 30, 2013	Retirement eligibility age
July 1, 1957 or later	55 or less	65
July 1, 1956 to June 30, 1957	56	64
July 1, 1955 to June 30, 1956	57	63
July 1, 1954 to June 30, 1955	58	62
Before July 1, 1954	59 and up	61

(4) *Eligibility for Members Hired after June 30, 2013* – Attainment of age 58 if a Public Officer in a High Risk Position and attainment of age 67 otherwise.

(b) Service Retirement Annuity Benefits

An annuity is payable for the lifetime of the member equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement, plus, for Act No. 447 and Act No. 1 members, the accrued benefit determined as of June 30, 2013. If the balance in the hybrid contribution account is $10,000 or less, it shall be paid as a lump sum instead of as an annuity.

(1) *Accrued Benefit as of June 30, 2013 for Act No. 447 Members* – The accrued benefit as of June 30, 2013 shall be determined based on the average compensation, as defined, for Act No. 447 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Act No. 447 Mayors, the highest compensation, as defined, as a Mayor is determined as of June 30, 2013.

If the Act No. 447 member had at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting to coordinate with social security (the Coordination Plan), the benefit is re-calculated at the Social Security Retirement Age (SSRA), as defined, as 1.5% of average compensation up to $6,600 multiplied by years of credited service, up to 30 years, plus 65% (75% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600.

If the Act No. 447 member had less than 30 years of credited service as of June 30, 2013, and attains 30 years of credited service by December 31, 2013, the accrued benefit equals 55% of average compensation if the member was under age 55 as of June 30, 2013 or 60% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit is re-calculated at SSRA as 1.5% of average compensation up to $6,600 multiplied by years of credited service, up to 30 years, plus 55% (60% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600. Member contributions received from Act No. 447 members eligible for this transitory benefit during the period beginning July 1, 2013 and ending upon the attainment of 30 years of credited service are considered pre-July 1, 2013 contributions; the contributions to the hybrid contribution account begin after the member attains 30 years of credited service.

If the Act No. 447 member had less than 30 years of credited service as of December 31, 2013, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service up to 20 years, plus 2% of average compensation multiplied by years of credited service in excess of 20 years. Maximum benefit is 75% of average compensation. Except for Commonwealth Police and Commonwealth Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58. For participants selecting the Coordination Plan, the basic benefit is re-calculated at SSRA as 1% of average compensation up to $6,600 multiplied by years of credited service up to 20 years, plus 1.5% of average compensation up to $6,600 multiplied by years of credited service in excess of 20 years, plus 1.5% of average compensation in excess of $6,600 multiplied by years of credited service up to 20 years, plus 2.0% of average compensation in excess of $6,600 multiplied by years of credited service in excess of 20 years. Except for Police

and Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58.

For Act No. 447 Mayors with at least 8 years of credited service as a mayor, the accrued benefit will not be less than 5% of highest compensation, as defined, as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

(2) *Accrued Benefit as of June 30, 2013 for Act No. 1 Members* – The accrued benefit as of June 30, 2013 shall be determined based on the average compensation for Act No. 1 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Act No. 1 Mayors, the highest compensation as a Mayor is determined as of June 30, 2013.

If the Act No. 1 member is a police officer or firefighter with at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013.

For all other Act No. 1 members, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service. The benefit is actuarially reduced for each year payment commences prior to age 65.

For Act No. 1 Mayors with at least 8 years of credited service as a mayor, the accrued benefit will not be less than 5% of highest compensation as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

(c) Compulsory Retirement

All Act No. 447 and Act No. 1 Public Officers in High Risk Positions must retire upon attainment of age 58 and 30 years of credited service. A two year extension may be requested by the member from the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps, or supervising authority as applicable.

(d) Termination Benefits

(1) Lump Sum Withdrawal

Eligibility: A Member is eligible upon termination of service prior to 5 years of service or if the balance in the hybrid contribution account is $10,000 or less.

Benefit: The benefit equals a lump sum payment of the balance in the hybrid contribution account as of the date of the permanent separation of service.

(2) Deferred Retirement

Eligibility: A Member is eligible upon termination of service with 5 or more years of service (10 years of credited service for Act No. 447 and Act No. 1 members) prior to the applicable retirement eligibility, provided the member has not taken a lump sum withdrawal of the accumulated contributions and the hybrid contribution account.

Benefit: An annuity payable for the lifetime of the member commencing at the applicable retirement eligibility age is equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement, plus, for Act No. 447 and Act No. 1 members, the accrued benefit determined as of June 30, 2013.

(e) Death Benefits

(1) Pre-Retirement Death Benefit

Eligibility: Any current nonretired member is eligible.

Benefit: A refund of the hybrid contribution account, plus the accumulated contributions for Act No. 447 and Act No. 1 members.

(2) High-Risk Death Benefit under Act No. 127

Eligibility: Police, firefighters, and other employees in specified high-risk positions who die in the line of work due to reasons specified in Act No. 127 of 1958, as amended.

Spouse's Benefit: 50% of the participant's compensation at date of death, payable as an annuity until death or remarriage.

Children's Benefit: 50% of the participant's compensation at date of death, payable as an annuity, and allocated pro-rata among eligible children. The annuity is payable for life for a disabled child, until age 18 for a nondisabled child not pursuing studies, and until age 25 for a nondisabled child who is pursuing studies.

Benefit if No Spouse or Children: The parents of the member shall each receive 50% of the participant's compensation at date of death, payable as an annuity for life.

Post-death Increases: Effective July 1, 1996 and subsequently every three years, the above death benefits are increased by 3% provided that the beneficiary(ies) had been receiving payments for at least three years.

The cost of these benefits is paid by the Commonwealth's General Fund.

(3) Post-Retirement Death Benefit for Members who Retired prior to July 1, 2013

Eligibility: Any retiree or disabled member receiving a monthly benefit who has not elected a reversionary annuity and whose benefits commenced prior to July 1, 2013.

Benefit: The benefit is as follows (Law No. 105, as amended by Law No. 4):

(i) For those married or with dependent children at the time of death, the annual income to a widow, or widower or dependent children is equal to 60% (50% if in the Coordination Plan – 30% prior to January 1, 2004) of the retirement benefit payable for life for a surviving spouse and/or disabled children and payable until age 18 (age 25 if pursuing studies) for nondisabled children. If in the Coordination Plan, the benefit to the surviving spouse does not begin until the spouse's attainment of age 60 and the surviving spouse must have been married to the member for at least 10 years to be eligible for this benefit. The increase in the percentage from 30% to 50% if the Coordination Plan is paid by the Commonwealth's General Fund for former government employees or by the public enterprise or municipality for their former employees.

(ii) The benefit, when there is no relation as stated above, is equal to the remaining balance of accumulated contributions at the time of retirement after the deduction of lifetime annual income paid and is payable to a beneficiary or to the member's estate. In no case shall the benefit be less than $1,000. Either the Commonwealth's General Fund for former government employees or the public enterprise or municipality for their former employees pays the difference, up to $250, between (1) the accumulated contributions less the lifetime annual income paid and (2) $1,000. The System pays for the rest.

(4) Post-Retirement Death Benefit for Members who Retired after June 30, 2013

Eligibility: Any retiree or disabled member who began receiving a monthly benefit after June 30, 2013.

Benefit: If the member elected at the time of retirement to transfer a portion of the annuity to a beneficiary by selecting an actuarially equivalent optional form of payment, the benefit is the applicable survivor benefit selected.

For all members, the excess, if any, of the hybrid contribution account, plus the accumulated contributions for Act No. 447 and Act No. 1 members, at the time of retirement over the total annuity payments paid to the member and any beneficiary per the terms of the optional form of payment shall be payable to a beneficiary or the member's estate.

(5) Beneficiaries receiving occupational death benefits as of June 30, 2013 continue to be eligible to receive such benefits.

(f) Disability Benefits

(1) Disability

Eligibility: All members are eligible upon the occurrence of disability.

Benefit: The balance of the hybrid contribution account payable as lump sum distribution, an immediate annuity or a deferred annuity at the election of the participant. Act No. 447 and Act No. 1 members remain eligible to receive the accrued benefit as of June 30, 2013 commencing at the applicable retirement eligibility age.

(2) High Risk Disability under Act No. 127

Eligibility: Police, firefighters, and other employees in specified high-risk positions who are disabled in the line of work due to reasons specified in Act No. 127 of 1958 (as amended).

Benefit: 80% (100% for Act No. 447 members) of compensation as of date of disability, payable as an annuity. If the member dies while still disabled, this annuity benefit continues to his beneficiaries. Beneficiaries include the surviving spouse and/or disabled children (for life), nondisabled children until age 18 (age 25 if pursuing studies), and the parents if no other beneficiaries. Effective July 1, 1996 and subsequently every three years, the disability benefit is increased by 3% provided that the member (or beneficiary) had been receiving payments for at least three years (Act No. 127 of 1958, as amended). The cost of these benefits is paid by the Commonwealth's General Fund.

(3) Members who qualified for occupational or nonoccupational disability benefits as of June 30, 2013 continue to be eligible to receive such benefits.

(g) Special Benefits

(1) Minimum Benefits

(i) Past Ad hoc Increases

The Legislative Assembly, from time to time, increases pensions for certain retirees as described in Act No. 124 approved on June 8, 1973 and Act No. 23 approved on September 23, 1983. The benefits are paid 50% by the Commonwealth's General Fund and 50% by the System.

(ii) Minimum Benefit for Members who Retired before July 1, 2013 (Act No. 156 of 2003, Act No. 35 of 2007, and Act No. 3)

The minimum monthly lifetime income for members who retired or become disabled before July 1, 2013 is $500 per month effective July 1, 2013 ($400 per month effective July 1, 2007 and $300 per month up to June 30, 2007). The increase in the minimum monthly benefit from $200 per month to $300 per month is paid by the Commonwealth's General Fund for former government and certain public corporations without their own treasuries employees or by certain public corporations with their own treasuries or municipalities for their former employees. The increase in the minimum monthly benefit from $300 per month to $400 per month is to be paid by the System for former government and certain public corporations without their own treasuries employees or by certain public corporations with their own treasuries or municipalities for their former employees.

(iii) Coordination Plan Minimum Benefit

A minimum monthly benefit is payable upon attainment of SSRA such that the benefit, when added to the Social Security Benefit, is not less than the benefit payable prior to SSRA.

(2) Cost-of-Living Adjustments (COLA) to Pension Benefits

The Legislative Assembly, from time to time, increases pensions by 3% for retired and disabled members. Beneficiaries are not entitled to COLAs granted after the retiree's death. The first increase was granted by Act No. 10 of 1992. Subsequent 3% increases have been granted every third year since 1992, with the latest 3% increase established on April 24, 2007 and effective July 1, 2007 (retroactive to January 1, 2007) for retired and disabled members that were receiving a monthly benefit on or before January 1, 2004. In addition, effective July 1, 2008, any retired or disabled member that was receiving a monthly annuity on or before January 1, 2004 less than $1,250 per month received an increase of up to 3% without exceeding the limit of $1,250 per month. The COLAs granted in 1992 to all retirees and in 1998 to retirees who are former government or municipal employees shall be paid by the System. All other COLAs granted in 1995 and later shall be paid by the Commonwealth's General Fund for former government and certain public corporations without their own treasuries employees or by certain public corporations with their own treasuries or municipalities for their former employees.

(3) Special "Bonus" Benefits

(i) Christmas Bonus (Act No. 144, as Amended by Act No. 3)

An annual bonus of $200 for each retiree, beneficiary, and disabled member paid in December provided the member retired prior to July 1, 2013. This benefit is paid from the supplemental contributions received from the Commonwealth's General Fund for former government and certain public corporations without their own treasuries employees or by certain public corporations with their own treasuries or municipalities for their former employees.

(ii) Medication Bonus (Act No. 155, as Amended by Act No. 3)

An annual bonus of $100 for each retiree, beneficiary, and disabled member to cover health costs paid in July provided the member retired prior to July 1, 2013. Evidence of coverage is not required. The amount is prorated if there are multiple beneficiaries. This benefit is paid from the supplemental contributions received from the Commonwealth's General Fund for former government and certain public corporations without their own treasuries employees or by certain public corporations with their own treasuries or municipalities for their former employees.

(h) Contributions

(1) Member Contributions

Effective July 1, 2013, contributions by members are 10% of compensation. However, for Act No. 447 members who selected the Coordination Plan, the member contributions are 8.5% of compensation up to $6,600 plus 10% of compensation in excess of $6,600 during the 2014-2015 fiscal year and 10% of compensation up to during the 2015-2016 fiscal year and after Members may voluntarily make additional contributions to their hybrid contribution account.

Prior to July 1, 2013, contributions by Act No. 447 members selecting the Coordination Plan were 5.775% of compensation up to $6,600 plus 8.275% of compensation in excess of $6,600. Contributions by all other members were 8.275% of compensation. System 2000 members may also have made voluntary contributions of up to 1.725% of compensation prior to July 1, 2013.

(2) Employer Contributions (Article 2-116, as Amended by Law No. 116 of 2010 and Act No. 3)

Prior to July 1, 2011, employer contributions were 9.275% of compensation. Effective July 1, 2011, employer contributions are 10.275% of compensation. For the next four fiscal years effective July 1, employer contributions will increase annually by 1% of compensation. For the five fiscal years thereafter, employer contributions will increase annually by 1.25% of compensation, reaching an employer contribution rate of 20.525% of compensation effective July 1, 2020.

(3) Supplemental Contributions from the Commonwealth's General Fund, Certain Public Corporations, and Municipalities (Act No. 3)

Effective July 1, 2013, the System will receive a supplemental contribution of $2,000 each fiscal year for each pensioner (including beneficiaries receiving survivor benefits) who was previously benefitting as an Act No. 447 or Act No. 1 member while an active employee. This supplemental contribution will be paid by the Commonwealth's General Fund for former government and certain public corporations without their own treasuries employees or by certain public corporations with their own treasuries or municipalities for their former employees.

(4) Additional Uniform Contribution (Act No. 32, as Amended)

The additional uniform contribution will be certified by the external actuary of the System each fiscal year from 2015-2016 as necessary to avoid having the projected gross assets of the System, during any subsequent fiscal year, to fall below $1 billion. The additional uniform contribution is to be paid by the Commonwealth's General Fund, public corporations with their own treasuries, and municipalities. Total additional uniform contribution determined for fiscal years 2015, 2016 and 2017 was $776 million. As further described in notes 3 and 14(c), the additional uniform contribution was eliminated in June 2017.

(i) Early Retirement Programs

The Puerto Rico Environmental Quality Board (EQB) implemented an early retirement program for its employees under the Law 224 Act No. 7, dated August 9, 2008. EQB has already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the System in four installments on each July 31 starting in 2009 through 2012. The EQB was at default on the retirement plan payment, so they requested a new payment plan. The System's Board of Trustees approved a payment plan for the debt balance due of the retirement program for 24 months starting in March 2014.

On July 2, 2010, the Commonwealth enacted Act No. 70 establishing a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined. Act No. 70 of 2010 (Act No. 70) also established that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of creditable services and will consist of monthly benefits ranging from 37.5% to 50% of each employees' monthly salary. Benefits under this program will be paid by the Commonwealth's General Fund and by the public corporations, covering their respective employees until the plan member reaches the later of age 55 for members under Act No. 447 or age 65 for members under Act No. 1, or the date the plan member would have completed 30 years of service had the member continued employment. In addition, the public corporations will also be required to continue making the required employee and employer contributions to the System. The Commonwealth's General Fund will be required to continue making its required employer contributions. The System will be responsible for benefit payments afterwards. As of June 30, 2016, the System recorded a liability of approximately $16 million for its responsibility as an employer under Act No. 70.

The contribution requirement to the System is established by law and is not actuarially determined. The special benefits contributions of approximately $196.7 million in 2016 mainly represent contributions from the Commonwealth's General Fund, public corporations and municipalities for the special benefits identified above granted by special laws. The funding of the special benefits is provided to the System through legislative appropriations each July 1 by the Commonwealth's General Fund for former government and certain public corporations without their own treasuries employees, and by certain public corporations with their own treasuries and municipalities for their former employees. The legislative appropriations are considered estimates of the payments to be made by the System for the special benefits. Deficiencies in legislative appropriations are covered by the System's own funds until recovered through future legislative appropriations. Any surplus of legislative appropriations collected

 (Continued)

over special benefits paid is combined with the assets held in trust for the payment of other pension benefits.

(j) Other Postemployment Benefits (OPEB) – Healthcare Benefits

ERS MIPC is an unfunded, cost-sharing, multi-employer defined benefit other postemployment benefit plan sponsored by the Commonwealth. ERS MIPC covers a payment of up to $100 per month to the eligible medical insurance plan selected by the member provided the member retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3). Substantially all fulltime employees of the Commonwealth's primary government, and certain municipalities of Puerto Rico and certain component units of the Commonwealth not having their own postemployment benefit plan, were covered by the OPEB.

Commonwealth employees became members upon their date of employment. Plan members were eligible for benefits upon reaching the pension benefits retirement ages.

At July 1, 2015, the membership consisted of the following:

Membership:	
Retired members	94,979
Disabled members	15,444
Total membership	110,423

The contribution requirement of ERS MIPC is established by Act No. 95 approved on June 29, 1963. This OPEB plan is financed by the Commonwealth on a pay-as-you-go basis. There is no contribution requirement from the plan member during active employment. Retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution. As a result, these OPEB are 100% unfunded. During the year ended June 30, 2016, OPEB contributions amounted to $94 million.

The funding of the OPEB benefits is provided to the System through legislative appropriations each July 1 by the Commonwealth's General Fund for former government and certain public corporations without their own treasuries employees, and by certain public corporations with their own treasuries and municipalities for their former employees. The legislative appropriations are considered estimates of the payments to be made by the System for the healthcare benefits throughout the year.

(5) Net Pension Liability

The components of the net pension liability as of June 30, 2016 were as follows (dollars in thousands):

Total pension liability	$	36,432,873
Plan's fiduciary net deficit		(1,265,885)
Net pension liability	$	37,698,758
Plan's fiduciary net deficit as a percentage of the total pension liability		(3.47)%

(a) Actuarial Methods and Assumptions

The census data collection date is at beginning-of-year. The liability results as of June 30, 2016 are based on projecting the System obligations determined as of the census data collection date of July 1, 2015 for one year, using roll-forward methods and assuming no liability gains or losses.

The actuarial valuation used the following actuarial assumptions:

Inflation	2.50%
Municipal bond index	2.85%, as per Bond Buyer General Obligation 20-Bond Municipal Bond Index
Projected salary increases	3.00% per year. No compensation increases are assumed until July 1, 2021 as a result of Act No. 3-2017 and the current general economy.
Mortality	Pre-retirement Mortality: For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2016 from the 2006 base year, and projected forward using MP-2016 on generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2016 from the 2006 base year, and projected forward using MP-2016 on generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127.

Post-retirement Healthy Mortality:

Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2016 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Post-retirement Disabled Mortality:

Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2016 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Most other demographic assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience 2009 study using data as of June 30, 2003, June 30, 2005 and June 30, 2007.

(b) Long-Term Expected Rate of Return

The long-term expected rate of return on pension benefits investments was determined in accordance with the asset allocation of the portfolio that was adopted by the System's Board of Trustees during December 2013 and the actuary's capital market assumptions as of June 30, 2016. In addition, the assumption reflects that loans to members comprise approximately 20% of the portfolio and, have an approximate return of 9.1% with no volatility. The long-term expected rate of return on pension benefits investments of 6.55% as of June 30, 2016 equal to the highest debt service of the senior pension funding bonds payable which range from 5.85% per year to 6.55% per year.

The pension plan's policy in regard to allocation of invested assets is established and may be amended by the System's Board of Trustees. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a positive impact on the System's financial condition for the benefits provided through the pension programs. The following asset allocation policy as of June 30, 2016 was adopted by the System's Board of Trustees:

	Target allocation	Long-term expected rate of return
Asset class:		
Domestic equity	25 %	6.4 %
International equity	10	6.7
Fixed income	64	6.3
Cash	1	3.0
Total	100 %	

The long-term expected rate of return on pension benefits investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

(c) Discount Rate

The asset basis for the date of depletion projection is the System's fiduciary net position (the gross assets plus deferred outflows of resources less the gross liabilities, including the senior pension funding bonds payable, plus deferred inflows of resources). On this basis, the System's fiduciary net position was exhausted in the fiscal year 2015.

The System's fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the tax free municipal bond index (Bond Buyer General Obligation 20-Bond Municipal Bond Index) was applied to all periods of projected benefits payments to determine the total pension liability. The discount rate was 2.85% as of June 30, 2016.

The date of depletion projection of the actuarial report does not include any amounts from the additional uniform contribution required by Act No. 32 because of actual fiscal and budgetary financial difficulties, continued budget deficits and liquidity risks of the Commonwealth and the municipalities, and in the event that their financial condition do not improve in the near term.

The June 30, 2016, actuarial valuation reflects an increase of $4,361 million in the net pension liability as a result of the changes in assumptions of $3,854 million, mainly related to the decrease in the

discount rate as required by GASB Statement No. 67 from 3.80% in fiscal year 2015 to 2.85% in fiscal year 2016 and the Plan Fiduciary Net Deficit Position of approximately $1,266 million as of June 30, 2016, which effects were offset by a decrease of $252 million in the total pension liability as a result differences between expected and actual experience.

(d) Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability calculated using the discount rate of 2.85%, as well as what it would be if it were calculated using a discount rate of 1%-point lower (1.85%) or 1% point higher (3.85%) than the current rate (dollars in thousands):

	1% Decrease (1.85%)	Current discount rate (2.85%)	1% Increase (3.85%)
Net pension liability	$ 43,200,603	37,698,758	33,149,507

(6) Cash and Cash Equivalents, Investments and Securities Lending Transactions

Cash and Cash Equivalents

Cash and cash equivalents as of June 30, 2016 consisted of the following (in thousands):

	Carrying amount	Depository bank balance	Amount uninsured and uncollateralized
Deposits with GDB	$ 210,765	228,034	228,034
Deposits with Puerto Rico commercial banks	255,387	249,605	—
Money market funds	185,889	—	—
U.S. Treasury bill	170	—	—
Total	$ 652,211	477,639	228,034

Custodial credit risk for deposits is the risk that, in an event of the failure of a depository financial institution, the System may not be able to recover deposits or collateral securities that are in the possession of an outside party. The Commonwealth requires that public funds deposited in Puerto Rico commercial banks be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth. Deposits with GDB and with non-Puerto Rico commercial banks and money market funds are uninsured and uncollateralized, as these entities are exempt from compliance with the collateralization requirement.

Restricted cash and cash equivalent amounted to approximately $187.7 million as of June 30, 2016 and consisted of the following:

- Approximately $85.4 million of funds are restricted for the debt service of the bonds payable, and 100% of such funds were deposited at trustee in money market funds.
- Approximately $102.2 million of funds are restricted for repayments of mortgage and personal loans administrated by the mortgage servicers and the System, for expired checks not claim by the plan members, and other purposes, of which approximately $83.3 million of funds were deposited at trustee in money market accounts, approximately $6.3 million of funds were deposited at GDB and approximately $12.6 million were deposited at Puerto Rico commercial banks.

Custodial Credit Loss on Deposits with GDB

Management concluded that the information available prior to the issuance of the System's financial statements for the year ended June 30, 2016 indicates that it is probable that an impairment loss on the System's deposits held with GDB exists as of June 30, 2016.

The Commonwealth and its public entities have not been able to repay their loans from GDB, which has significantly affected GDB's liquidity and ability to repay its obligations.

GDB faces significant risks and uncertainties and it currently does not have sufficient liquid financial resources to meet obligations when they come due. Pursuant to enacted legislation in April 2016, as explained in note 14, the Governor of the Commonwealth ordered the suspension of loan disbursements by GDB, imposed restrictions on the withdrawal and transfer of deposits from GDB, and imposed a moratorium on debt obligations of GDB, among other measures.

Because of the nonpayment by the Commonwealth of the appropriation to GDB and GDB's inability to restructure its debt considering the broader fiscal crisis faced by the Commonwealth, GDB is in default of its debt obligations since May 1, 2016. In April 2016, the Governor imposed on GDB emergency operational restrictions and debt moratorium.

Due to the conditions and events described above, GDB's management believes substantial doubt exists as the GDB's ability to continue as a going concern.

On April 28, 2017, the Oversight Board approved the liquidation proposal included in the GDB's fiscal plan, that calls for an orderly winding down its operations over ten years.

Based on an evaluation of the availability and recoverability of such funds, a custodial credit loss on these deposits has been recorded on the System's financial statements as follows (expressed in thousands):

		Deposits held with GDB at June 30, 2016		
		Carrying value before impairment loss	Custodial credit loss	Carrying value
Type of deposit:				
Interest bearing accounts	$	189,614	(20,935)	168,679
Time deposit		42,086	—	42,086
Total	$	231,700	(20,935)	210,765

In addition, management estimates that additional custodial credit losses on deposits held with GDB of approximately $9 million will be recorded in the System's financial statements for the year ended June 30, 2017 corresponding to new certificates of deposit opened during such fiscal years for a total custodial credit loss on deposits held with the GDB of approximately $30 million as of April 30, 2017. The realizable balance of the deposits held with the GDB as of June 30, 2016 was determined based on the corresponding actual collections received from the GDB on such deposits after the June 30, 2016 year end.

Investments

For the year ended June 30, 2016, the annual money-weighted rate of return on investments, net of investment expenses, was 6.55%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

The System's investments are exposed to custodial credit risk, credit risk, concentration of credit risk, foreign currency risk, and interest rate risk. Following is a description of these risks as of June 30, 2016:

(a) Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the System may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. At June 30, 2016, securities investments were registered in the name of the System and were held in the possession of the System's custodian banks, except for securities lent. Securities lent are not exposed to custodial credit risk. Cash collateral received from securities lending transactions invested in short-term investments is exposed to custodial credit risk.

(b) Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. All fixed-income securities at the time of purchase must be of investment grade quality. All issuances shall be rated investment grade by at least two of the nationally recognized rating agencies. The portfolio is expected to maintain a minimum weighted average credit quality of either "A–" or better.

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The credit quality ratings of bonds and notes as of June 30, 2016, are as follows (in thousands):

	Rating (1)								
Investment type	**AAA**	**AA+ to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to BB-**	**B+ to B-**	**CCC-**	**Not rated**	**Total**
Bonds and notes:									
U.S. government sponsored agencies obligations:									
Federal Home Loan Bank (FHLB)	$ —	2,908	—	—	—	—	—	—	2,908
Federal National Mortgage Association (FNMA)	—	4,117	—	—	—	—	—	—	4,117
Federal Home Loan Mortgage Corporation (FHLMC)	—	2,519	—	—	—	—	—	—	2,519
Federal Farm Credit Banks (FFCB)	—	3,678	—	—	—	—	—	—	3,678
Mortgage and asset-backed securities:									
FNMA	—	3,663	—	—	—	—	—	250	3,913
FHLMC	—	1,646	—	—	—	—	—	—	1,646
Commercial mortgages								1,533	1,533
U.S. corporate bonds and notes	8,489	37,691	86,587	86,039	5,793	—	224	7,226	232,049
Non U.S. corporate bonds	—	2,181	23,651	17,237	4,792	1,788	—	1,891	51,540
U.S. municipal bonds	1,108	1,424	—	1,157	—	—	—	—	3,689
COFINA bonds	—	—	—	—	—	—	93,484	—	93,484
Total bonds and notes	9,597	59,827	110,238	104,433	10,585	1,788	93,708	10,900	401,076
Total	$ 9,597	59,827	110,238	104,433	10,585	1,788	93,708	10,900	401,076

(1) Rating obtained from Standard and Poor's or equivalent rating by Moody's Investor Service or Fitch Ratings.

Approximately $44.8 million of the total System investments consist of U.S. government and Government National Mortgage Association (GNMA) mortgage-backed securities, which carry no risk, therefore, not included within the above table.

(c) Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the System's investment in a single issuer. As of June 30, 2016, there are no investments in any issuer that represent 5% or more of the System's total investments, except for its investment in certain bonds issued by the Puerto Rico Sales Tax Financing Corporation (known as COFINA by its Spanish acronym) (the COFINA Bonds).

Pursuant to Act No. 96 of June 16th, 2011, during the fiscal year ended June 30, 2011, the System received a special contribution of approximately $163 million from the Puerto Rico Infrastructure Financing Authority, an instrumentality of the Commonwealth. The contribution was invested in COFINA Bonds, which provide for a 7% accretion rate and maturity dates between 2043 and 2048. COFINA is a blended component unit of the Commonwealth. As required by Act No. 96 of June 16th, 2011, the System cannot voluntary dispose of the COFINA Bonds unless such request has been approved by the GDB. The COFINA Bonds had a fair value of approximately $93.5 million as of June 30, 2016.

(d) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the System manages its exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for benefit payments, thereby avoiding the need to sell securities on the open market prior to maturity. Investments in equity securities are not subject to the maximum maturity policy since they do not carry a maturity date. The System is expected to achieve capital preservation and income generation by investing in a diversified portfolio of marketable, investment grade intermediate credit and core fixed-income securities.

The contractual maturity of investments as of June 30, 2016, is summarized below (in thousands). Expected maturities will differ from contractual maturities, because counterparties may have the right to call or prepay obligations with or without call or prepayment penalties.

	Maturity (in years)				
Investment type	**Within one year**	**After one to five years**	**After five to ten years**	**After ten years**	**Total**
Bonds and notes:					
U.S. government securities:					
U.S. Treasury notes	$ 8,018	31,329	—	—	39,347
U.S. Treasury bonds	—	2,207	—	—	2,207
U.S. government sponsored agencies notes:					
FHLB	—	2,908	—	—	2,908
FNMA	—	4,117	—	—	4,117
FHLMC	—	2,519	—	—	2,519
FFCB	1,945	1,733	—	—	3,678
Mortgage and asset-backed securities:					
GNMA	1,213	2,048	—	—	3,261
FNMA	2,003	1,910	—	—	3,913
FHLMC	986	660	—	—	1,646
Commercial mortgages	—	1,533	—	—	1,533
U.S. corporate bonds and notes	23,304	196,242	10,415	2,088	232,049
Non U.S. corporate bonds	4,194	38,332	6,948	2,066	51,540
U.S. municipal bonds	611	3,078	—	—	3,689
COFINA bonds	—	—	—	93,484	93,484
Total bonds and notes	$ 42,274	288,616	17,363	97,638	445,891

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Investment type	Maturity (in years) Within one year	After one to five years	After five to ten years	After ten years	Total
Stocks, nonexchange commingled equity trust funds and investments in limited partnerships:					
U.S. corporate stock					$ 1,277
Nonexchange commingled equity trust funds:					
U.S. – SSgA Russell 3000 Fund					160,370
Non-U.S. – SSgA MSCI ACWI Ex USA Fund					59,215
Investments in limited partnerships					47,461
Total stocks, nonexchange commingled equity trust funds and investments in limited partnerships					268,323
Total investments					$ 714,214

(1) Nonexchange commingled fixed income trust fund was classified based on effective duration.

(e) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. As of June 30, 2016, the SSgA MSCI ACWI Ex USA Fund is subject to foreign currency risk.

As of June 30, 2016, the composition of the underlying investments in the SSgA MSCI ACWI Ex USA Fund by country was as follows:

Country	SSgA MSCI ACWI EX USA Fund
Japan	17 %
United Kingdom	14
Canada	7
France	7
Switzerland	7
Germany	6
China	6
Australia	5
Korea	3
Taiwan	3
Spain	2
Hong Kong	2
India	2
Sweden	2
Others	17
Total	100 %

(i) *Nonexchange Commingled Trust Funds*

As of June 30, 2016, the System owned shares in the SSgA Russell 3000 Index Non-Lending Fund (SSgA Russell 3000 Fund) and the SSgA MSCI ACWI Ex USA Non-Lending Fund (SSgA MSCI ACWI Ex USA Fund) as follows (in thousands):

Fund name	Shares	Value
SSgA Russell 3000 Fund	7,288	$ 160,370
SSgA MSCI ACWI Ex USA Fund	3,618	59,215
Total nonexchange commingled trust funds		$ 219,585

The investment objective of the Russell 3000 Fund is to approximate as closely as practicable, before expenses, the performance of the Russell 3000 Index over the long term. Shares can be redeemed on a daily basis at NAV and have no redemption restrictions.

The investment objective of the SSgA MSCI ACWI Ex USA Fund is to approximate as closely as practicable, before expenses, the performance of the MSCI ACWI ex USA Index over the long term. Shares can be redeemed semi-monthly at NAV and have no redemption restrictions.

As of June 30, 2016, the investments underlying the SSgA Russell 3000 Fund and the SSgA MSCI ACWI Ex USA Fund, had the following sector allocations:

Sector	SSgA Russell 3000 Fund	SSgA MSCI ACWI Ex USA Fund
Information technology	19 %	8 %
Financials	17	28
Healthcare	14	9
Consumer discretionary	13	12
Industrials	10	11
Consumer staples	9	10
Energy	7	7
Materials	4	7
Utilities	4	3
Telecommunication services	3	5
Total	100 %	100 %

(ii) Investments in Limited Partnerships

The fair value of investments in limited partnerships at June 30, 2016, amounted to approximately $47 million. The allocations of net gains and losses to limited partners are based on certain percentages, as established in the limited partnership agreements. Investments in limited partnerships are not rated by a nationally recognized statistical rating organization.

In accordance with the partnership agreements, the System's investments can only be redeemed upon distribution from funds managers; usually in the form of a sale of its holdings or dividends distributed. As of June 30, 2016, the System does not intend to sell its investments in limited partnerships for an amount different to that presented in the financial statements.

As of June 30, 2016, the date of commitment, total commitment, 2016 contributions, contributions to date at cost, and estimated fair value of investments in limited partnerships are as follows (in thousands):

	Date of commitment		Total commitment	2016 Contributions	Contributions to date at cost	Estimated fair value
Grupo Guayacán, Inc.-						
Guayacán Fund of Funds II, LP	August 1999	$	25,000	—	23,681	1,743
Advent-Morro Equity Partner, Inc.:						
Guayacán Private Equity Fund, LP	January 1997		5,000	—	4,645	2,161
Guayacán Private Equity Fund II, LP	April 2007		25,000	3,196	24,547	25,701
Venture Capital Fund, Inc.	November 1995		800	—	800	744
GF Capital Management and Advisors, LLC – GF Capital Private Equity Fund LP	December 2006		25,000	—	25,793	17,112
Chase Capital Partners Private: Equity Fund of Funds Corporate						
Martineau Bay Resort, s. en c. (s.e.)	July 1998		1,796	—	1,796	—
Total		$	82,596	3,196	81,262	47,461

(iii) *Securities Lending Transactions*

The System participates in a securities lending program, whereby securities are transferred to an independent broker or dealer in exchange for collateral in the form of cash, government securities, and/or irrevocable bank letters of credit with a simultaneous agreement to return the collateral for the same securities in the future. Collateral is marked to market daily and the agent places a request for additional collateral from brokers, if needed. The custodian bank is the agent for the securities lending program.

At the end of fiscal year 2016, there was no credit risk exposure to borrowers because the amounts the System owes the borrowers (the collateral) exceeded the amounts the borrowers owe the System (the securities lent). At June 30, 2016, the collateral received represented 103.8% of the fair value of the total securities lent.

The securities on loan for which collateral was received as of June 30, 2016, consisted of the following (in thousands):

Description		Fair value of underlying securities
U.S. government securities:		
U.S. Treasury bills	$	110
U.S. Treasury notes		2,351
U.S. government sponsored agencies notes:		
U.S. corporate bonds and notes		14,634
Non U.S. corporate bonds and notes		1,940
Total	$	19,035

The underlying collateral for these securities had a fair value of approximately $19.8 million as of June 30, 2016. The collateral received was invested in a money market fund sponsored by the custodian bank. As of June 30, 2016, the short-term investment fund consisted of securities purchased under agreements to resell.

Under the terms of the securities lending agreement, the System is fully indemnified against failure of the borrowers to return the securities lent (to the extent the collateral is inadequate to replace the securities lent) or failure to pay the System for income distributions by the securities' issuers while the securities are on loan. In addition, the System is indemnified against loss should the lending agent fail to demand adequate and appropriate collateral on a timely basis.

(7) Accounts Receivable from Employers

As of June 30, 2016, accounts receivable from employers consisted of the following (in thousands):

Early retirement programs	$	2,733
Special laws		64,012
Employer and employee contributions		383,889
Interest on late payments		59,001
Total accounts receivable from employers		509,635
Less allowance for adjustments and losses in realization		(250,834)
Total accounts receivable from employers – net	$	258,801

Under Act No. 447, each employer must pay, on a monthly basis, the amounts corresponding to contributions and loan repayments, on or before the fifteenth day of the following month. After that date, interest is charged as established by the System.

As more fully described in note 3, the Commonwealth and many of its instrumentalities, which are the employers of the System, have been facing significant fiscal and economic challenges. Further, in recent months, the rating downgrade and widening of credit spreads for the Commonwealth's public sector and public corporations' debt has put further strain on liquidity and sources of funding of the employers. Consequently, most of the receivables from employers are delinquent past established payment dates and/or installment plan due dates. In other instances, amounts past due have continued to be renegotiated to later dates.

As of June 30, 2016, the System recorded an allowance of approximately $251 million for adjustments and losses in realization of the additional uniform contributions due from the Commonwealth for the fiscal years 2015 and 2016 because, as explained in note 3, its collectability is currently uncertain.

Although certain measures have been implemented to improve the collection of such receivables, the timing of collections from employers affects the liquidity needs of the System. Management is of the opinion that, except for the additional uniform contributions of the Commonwealth of approximately $251 million, other amounts due from employers are collectible; however, this situation could ultimately affect the payment of benefits to members or repayment of the System's bonds payable, should any such amounts become uncollectible in the future.

(8) Member Loans and Interest Receivable

Loans receivable from plan members are guaranteed by the contributions of plan members and by other sources, including mortgage deeds and any unrestricted amount remaining in the escrow funds. In addition, collections on loans receivable are received through payroll withholdings. The latest maximum amount of loans to plan members for mortgage loans was $100,000 and $5,000 for personal and cultural trip loans. The originations of mortgage loans were frozen in December 2013 and those related to personal and cultural loans were frozen in November 2016. During the years ended June 30, 2014 and 2013, personal loans with principal balances amounting to approximately $100 million and $88 million, respectively, were sold to two financial institutions. As per servicing agreements, the System is in charge of the servicing, administration and collection of the loans and outstanding principal balances at and after closing date for a servicing fee of 2%.

The allowance for adjustments and losses in realization is considered a general allowance for all categories of loans and interest receivable, except mortgage loans, and also a specific allowance for the special collection project loans balances.

As of June 30, 2016, the composition of loans and interest receivable from plan members is summarized as follows (in thousands):

Loans receivable:		
Personal	$	350,651
Mortgage		169,658
Cultural trips		45,289
Total loans to plan members		565,598
Accrued interest receivable		34,177
Less allowance for adjustments and losses in realization		(2,778)
Total loans and interest receivable from plan members – net	$	596,997

(9) Other Assets

As of June 30, 2016, other assets mainly consist of repossessed and foreclosed properties acquired through foreclosure proceedings related to delinquent mortgage loans. Foreclosed properties are valued at the outstanding principal balance of the related mortgage loan upon foreclosure. These properties will be sold under a bidding process intended to recover the outstanding principal balance of the related mortgage loan. A gain or loss is recognized at the time of sale.

Differences resulting from the recognition of losses at the point of sale rather than upon foreclosure, as required by GAAP, are not material. Management believes that the carrying value of these properties approximates fair value.

(10) Bonds Payable

Senior Pension Funding Bonds – On February 27, 2007, the ERS and JRS Administration and GDB, acting as the System's cash fiscal agent (the Cash Fiscal Agent), presented to the System's Board, a financial transaction for the issuance of pension funding Bonds in order to reduce the System's unfunded actuarial accrued liability. The Bonds are limited, nonrecourse obligations of the System, payable solely from and secured solely by a pledge of employer contributions made after the date of issuance of the first series of Bonds, and from funds held on deposit with the Bank of New York Mellon, acting as the System's investments fiscal agent (the Investment Fiscal Agent). The Bonds are not payable from contributions made to the System by participating employees, or from the assets acquired with the proceeds of the Bonds, or from employer contributions released by the Cash Fiscal Agent to the System after funding of required reserves, or from any other assets of the System. The System invested the proceeds of the Bonds and used these investments and the earnings thereon to provide pension benefits to its beneficiaries.

On January 31, 2008, the System issued the first series of Bonds, which consisted of approximately $1,589 million aggregate principal amount of Senior Pension Funding Bonds, Series A (the Series A Bonds). On June 2, 2008, the System issued the second of such series of Bonds, which consisted of approximately $1,059 million aggregate principal amount of Senior Pension Funding Bonds, Series B (the Series B Bonds). Finally, on June 30, 2008, the System issued the third and final of such series of Bonds, which consisted of approximately $300 million aggregate principal amount of Senior Pension Funding Bonds, Series C (the Series C Bonds).

The following is a summary of changes in the Bonds payable principle balance (in thousands):

	Maturity		Balance at June 30, 2015	Accretion	Balance at June 30, 2016
5.85% to 6.45% Term and Capital Appreciation Bonds Series A	2023–2058	$	1,614,623	4,449	1,619,072
6.25% to 6.55% Term and Capital Appreciation Bonds Series B	2028–2058		1,195,722	24,563	1,220,285
6.15% to 6.50% Term and Capital Appreciation Bonds Series C	2028–2043		301,449	229	301,678
Bond discounts			(6,346)	213	(6,133)
Total		$	3,105,448	29,454	3,134,902

As of June 30, 2016, the outstanding principal balance of the Bonds is as follows (in thousands):

Description		
Series A Bonds:		
Capital Appreciation Bonds, maturing in 2028, bearing interest at 6.20%	$	75,302
Term Bonds, maturing in 2023, bearing interest at 5.85%		200,000
Term Bonds, maturing from 2031 through 2038, bearing interest at 6.15%		679,000
Term Bonds, maturing from 2039 through 2042, bearing interest at 6.20%		332,770
Term Bonds, maturing from 2055 through 2058, bearing interest at 6.45%		332,000
Total Series A Bonds outstanding		1,619,072
Series B Bonds:		
Capital Appreciation Bonds, maturing from 2028 through 2030, bearing interest at 6.40%		234,706
Capital Appreciation Bonds, maturing from 2031 through 2034, bearing interest at 6.45%		169,479
Term Bonds, maturing in 2031, bearing interest at 6.25%		117,100
Term Bonds, maturing from 2036 through 2039, bearing interest at 6.30%		270,000
Term Bonds, maturing from 2055 through 2058, bearing interest at 6.55%		429,000
Total Series B Bonds outstanding		1,220,285
Series C Bonds:		
Capital Appreciation Bonds, maturing in 2030, bearing interest at 6.50%		3,678
Term Bonds, maturing in 2028, bearing interest at 6.15%		110,000
Term Bonds, maturing in 2038, bearing interest at 6.25%		45,000
Term Bonds, maturing in 2043, bearing interest at 6.30%		143,000
Total Series C Bonds outstanding		301,678
Total bonds outstanding		3,141,035
Less bonds discount		(6,133)
Bonds payable – net	$	3,134,902

Series A Bonds – The aggregate principal amount of the Series A Bonds issued amounted to approximately $1,589 million of which $1,544 million were issued as term bonds (the Series A Term Bonds) and $45 million were issued as capital appreciation bonds (the Series A Capital Appreciation Bonds). Interest in the Series A Term Bonds are payable monthly on the first day of each month. Interest on the Series A Capital Appreciation Bonds are not payable on a current basis but are added to the principal of the Capital Appreciation Bonds on each January 1 and July 1 (Compounding Dates), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360 day year consisting of twelve 30 day months.

The Series A Bonds are subject to redemption at the option of the System from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series A Capital Appreciation Bonds, the accreted amount) of the Series A Bonds, plus accrued interest to the redemption date, and without premium.

In addition, the following Series A Term Bonds are subject to mandatory redemption in part commencing on July 1, 2021 to the extent of the sinking fund requirement for said bonds set forth below at a redemption price equal to 100% of the principal amount thereof plus accrued interest as follows (in thousands):

Redemption period	Subject bonds		Amount
July 1, 2021	Term bonds (final maturity July 1, 2023)	$	50,000
July 1, 2022	Term bonds (final maturity July 1, 2023)		70,000
July 1, 2023	Term bonds (final maturity July 1, 2023)		80,000
	Subtotal		200,000
July 1, 2031	Term bonds (final maturity July 1, 2038)		3,000
July 1, 2032	Term bonds (final maturity July 1, 2038)		4,500
July 1, 2033	Term bonds (final maturity July 1, 2038)		4,000
July 1, 2034	Term bonds (final maturity July 1, 2038)		133,500
July 1, 2035	Term bonds (final maturity July 1, 2038)		133,500
July 1, 2036	Term bonds (final maturity July 1, 2038)		133,500
July 1, 2037	Term bonds (final maturity July 1, 2038)		133,500
July 1, 2038	Term bonds (final maturity July 1, 2038)		133,500
	Subtotal		679,000
Total		$	879,000

Series B Bonds – The aggregate principal amount of the Series B Bonds amounted to approximately $1,059 million of which $816 million were issued as term bonds (the Series B Term Bonds) and $243 million were issued as capital appreciation bonds (the Series B Capital Appreciation Bonds). Interest in the Series B Term Bonds are payable monthly on the first day of each month. Interest on the Series B Capital Appreciation Bonds are not payable on a current basis but are added to the principal of the Series B Capital Appreciation Bonds on each January 1 and July 1 (Compounding Dates), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360 day year consisting of twelve 30 day months.

The Series B Bonds are subject to redemption at the option of the System from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series B Capital Appreciation Bonds, the accreted amount) of the Series B Bonds, plus accrued interest to the redemption date, and without premium.

Series C Bonds – The aggregate principal amount of the Series C Bonds amounted to approximately $300 million of which $298 million were issued as term bonds (the Series C Term Bonds) and $2 million were issued as capital appreciation bonds (the Series C Capital Appreciation Bonds). Interest in the Series C Term Bonds are payable monthly on the first day of each month. Interest on the Series C Capital Appreciation Bonds are not payable on a current basis, but are added to the principal of the Series C Capital Appreciation Bonds on each January 1 and July 1 (Compounding Dates), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360 day year consisting of twelve 30 day months.

The Series C Bonds are subject to redemption at the option of the System from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series C Capital Appreciation Bonds, the accreted amount) of the Series C Bonds, plus accrued interest to the redemption date, and without premium.

In addition, the following Series C Term Bonds are subject to mandatory redemption in part commencing on July 1, 2024 to the extent of the sinking fund requirement for said bonds set forth below at a redemption price equal to 100% of the principal amount thereof plus accrued interest as follows (in thousands):

Redemption period	Subject bonds	Amount
July 1, 2024	Term bonds (final maturity July 1, 2028)	$ 18,700
July 1, 2025	Term bonds (final maturity July 1, 2028)	22,000
July 1, 2026	Term bonds (final maturity July 1, 2028)	29,150
July 1, 2027	Term bonds (final maturity July 1, 2028)	36,300
July 1, 2028	Term bonds (final maturity July 1, 2028)	3,850
	Subtotal	110,000
July 1, 2029	Term bonds (final maturity July 1, 2038)	100
July 1, 2030	Term bonds (final maturity July 1, 2038)	540
July 1, 2031	Term bonds (final maturity July 1, 2038)	100
July 1, 2032	Term bonds (final maturity July 1, 2038)	3,420
July 1, 2033	Term bonds (final maturity July 1, 2038)	4,320
July 1, 2034	Term bonds (final maturity July 1, 2038)	100
July 1, 2035	Term bonds (final maturity July 1, 2038)	11,940
July 1, 2036	Term bonds (final maturity July 1, 2038)	2,160
July 1, 2037	Term bonds (final maturity July 1, 2038)	7,920
July 1, 2038	Term bonds (final maturity July 1, 2038)	14,400
	Subtotal	45,000

Redemption period	Subject bonds		Amount
July 1, 2039	Term bonds (final maturity July 1, 2043)	$	28,600
July 1, 2040	Term bonds (final maturity July 1, 2043)		28,600
July 1, 2041	Term bonds (final maturity July 1, 2043)		28,600
July 1, 2042	Term bonds (final maturity July 1, 2043)		28,600
July 1, 2043	Term bonds (final maturity July 1, 2043)		28,600
			143,000
Total		$	298,000

Debt service requirements in future years on the System's Bonds as of June 30, 2016 are as follows (in thousands):

	Principal	Interest	Total
Year ending June 30:			
2017	$ —	166,519	166,519
2018	—	166,519	166,519
2019	—	166,519	166,519
2020	—	166,519	166,519
2021	—	166,519	166,519
2022–2026	200,000	797,495	997,495
2027–2031	808,280	753,800	1,562,080
2032–2036	613,560	739,532	1,353,092
2037–2041	1,240,170	520,143	1,760,313
2042–2046	218,100	305,430	523,530
2047–2051	—	285,084	285,084
2052–2056	183,200	273,171	456,371
2057–2061	577,800	77,838	655,638
	3,841,110	$ 4,585,088	8,426,198
Less:			
Unaccreted interest	(700,075)		
Unamortized discount	(6,133)		
Total	$ 3,134,902		

Pledge of Employer Contributions Pursuant to Security Agreement – The System entered into a Security Agreement with the Fiscal Agent for the benefit of the bondholders, pursuant to which the System pledged to the Fiscal Agent, and granted the Fiscal Agent a security interest in employer contributions made after January 31, 2008, which was the date of issuance of the first series of bonds, and the funds on deposit with the Fiscal Agent under the various accounts established under the Pension Funding Bond Resolution (the Resolution).

The Resolution and the Security Agreement constitute a contract between the System and the Fiscal Agent, on behalf of the owners of the bonds. The pledge, covenants and agreements of the System set forth in the Resolution and the Security Agreement shall be for the equal benefit, protection and security of the owners of the bonds, regardless of time or times of their issuance or maturity, and shall be of equal rank, without preference, priority or distinction of any of the bonds over any other bond, except as expressly provided in or permitted by the Resolution. Annual employer contributions that are made after January 31, 2008, which was the date of issuance of the first series of bonds, in accordance with the Act and amounts on deposit in the different accounts created pursuant to the Resolution for the benefits of the owners of the bonds, are pledged for annual debt service requirements as established. The pledge is irrevocable so long as any bonds are outstanding under the terms of the Resolution.

Starting in August 2016, and monthly thereafter, the fiscal agent under the Resolution of the System's bonds notified to the System that it failed to transfer the requisite employers' contributions on the last business day of each month. The fiscal agent is not seeking to collect or recover any indebtedness from, enforce any judgment against, or obtain possession of, exercise control over, any property of or from, the Commonwealth or any of its instrumentalities, including the System, or exercise any act that is stayed by PROMESA, the Puerto Rico Financial Emergency and Fiscal Responsibility Act of January 29, 2017 (Act No. 5 or the Financial Emergency Act), the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act of April 6, 2016 (Act No. 21 or the Moratorium Act), or any Executive Orders related thereto. Consistent with PROMESA, the Financial Emergency Act, the Moratorium Act, and any Executive Orders, the fiscal agent is not exercising at this time any rights or remedies against the Commonwealth of Puerto Rico or any of its instrumentalities, including the System.

(11) Guarantee Insurance Reserve for Member Loans

The System provides life insurance that guarantees the payment of the outstanding principal balance of mortgage, personal and cultural trip loans in case of death of a plan member. The plan members who obtained these loans from the System pay the coverage in its entirety. The life insurance rates are actuarially determined and do not vary by age, sex, or health status.

(12) Other Postemployment Healthcare Benefits Funded Status and Funding Progress

The System's other postemployment healthcare benefits (OPEB) funded status as of June 30, 2016, the most recent actuarial valuation date, is as follows (dollars in thousands):

Actuarial value of plan assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded ratio	Annual covered payroll	UAAL as a percentage of annual covered payroll
$ —	1,349,503	1,349,503	— %	$ 3,344,382	40.4 %

The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

Act No. 3 eliminated the medical insurance plan contribution of $100 per month for future retirees effective July 1, 2013.

The census data collection date is at beginning-of-year. The liability results as of June 30, 2016 are based on projecting the System obligations determined as of the census data collection date of July 1, 2015 for one year, using roll-forward methods and assuming no liability gains or losses. The amortization period for GASB Statement No. 45 has been reduced to the expected future lifetime of current in pay members.

The actuarial valuations used the following actuarial assumptions:

Actuarial cost method	Entry age normal
Amortization method	18 years closed (beginning July 1, 2014), level dollar
Remaining amortization period	18 years
Asset valuation method	Not applicable
Actuarial assumptions:	
Investment rate of return	3.10%
Projected salary increases	Not applicable
Projected payroll growth	Not applicable
Inflation	Not applicable
Cost of living adjustment	Not applicable

Actuarial valuations of an ongoing plan involve estimates of the net value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and mortality. Amounts determined are subject to continuous revision as actual results are compared with past expectations and new estimates are made about the future.

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projection of OPEB for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

The actuarial calculations reflect a long–term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short–term volatility in actuarial accrued liabilities and actuarial value of assets.

The OPEB mortality rate assumptions are the same as that for pension benefits. For additional information refer to note 5.

(13) Contingencies

A. Litigation Filed by Creditors Against the System Prior to Commencement of the Title III Cases

The System is a defendant in a lawsuit brought by pensioners of the System. They filed the claim on behalf of the System against the underwriters of certain pension bonds of the System and some of the former members of the Board of Trustees of the System. The complaint requested $800 million in damages resulting from the $3 billion bond issuance in 2008 that, according to the plaintiffs, compromised the solvency of the System. In December, 2016, the Court of First Instance permitted the transpose of the System as plaintiff in the Complaint.

B. Litigation Filed by Creditors Against the System After Commencement of the Title III Cases

Employees Ret. Sys. of the Gov't of the Commonwealth of Puerto Rico, et al. v. Altair Global Credit Opportunities Fund (A), LLC, et al., Adv. Pro. No. 17-00213 (D.P.R. July 21, 2017)

On July 21, 2017, the System commenced an adversary proceeding challenging the System bondholders' security interests in various System assets through a declaratory relief action (the System Adequate Protection Suit). The System contends the System bondholders' security interests are not perfected because their financing statements do not adequately describe the collateral, and the System bondholders' attempts in 2015 and 2016 to correct the deficient statements through amendments were defective. The System also challenges among other things, the defendants' alleged security interest in post-petition employer contributions.

On August 17, 2018, the Title III court granted partial summary judgment in favor of the System. The Title III court held, among other things, that the System bondholders' liens are not perfected, their security interests are avoidable under Bankruptcy Code section 544, and their claims will be treated as general unsecured claims.

Altair Global Credit Opp. Fund (A), LLC, et al. v. Commonwealth of Puerto Rico, et al., Adv. Pro. Nos. 17-00219-LTS, 17-00220-LTS (D.P.R. July 27, 2017)

On July 27, 2017, a group of System bondholders commenced adversary proceedings (collectively, the PayGo Litigation) against the Commonwealth and the System seeking a declaration that Joint Resolution 188 and Act No. 106 (collectively, the PayGo Statute) – which requires the System to liquidate its assets for distribution to the General Fund – is void *ab initio* as a violation of the Title III automatic stay and violates the Contracts Clause and Takings Clause of the U.S. Constitution.

On November 17, 2017, the Oversight Board (joined by FAFAA and the Retiree Committee) filed a motion to dismiss the PayGo Litigation. On February 2, 2018, the Title III court issued an order informing the parties that the motion to dismiss would be taken under submission. As of the date hereof, the Title III court has not issued an opinion on the Oversight Board's motion to dismiss.

In addition, the System is a defendant or co-defendant in various lawsuits resulting from the ordinary conduct of its operations. Based on the advice of legal counsel and considering insurance coverages, management is of the opinion that the ultimate liability, if any, will not have a significant effect on the financial status of the System.

(14) Subsequent Events

Subsequent events were evaluated through October 5, 2018 to determine if any such events should either be recognized or disclosed in the 2016 basic financial statements. The subsequent events disclosed below are principally those related to debt activities, including credit rating downgrade events and other related fiscal events, and related legislation, both local and federal, that management believes are of public interest for disclosure.

A. Puerto Rico Oversight, Management, and Economic Stability Act

On June 30, 2016, the President of the United States signed PROMESA into law (as codified under 48 U.S.C. §§ 2101-2241). In general terms, PROMESA seeks to provide the Commonwealth and its covered instrumentalities with fiscal and economic discipline through, among other things: (i) the establishment of the Oversight Board, whose responsibilities include the certification of fiscal plans and budgets for the Commonwealth and its related entities; (ii) a temporary stay of all creditor lawsuits under Title IV of PROMESA, which expired on May 1, 2017; and (iii) two alternative methods to adjust unsustainable debt: (a) a voluntary debt modification process under Title VI of PROMESA, which establishes a largely out-of-court debt restructuring process through which modifications to financial debt can be accepted by a supermajority of creditors; and (b) a quasi-bankruptcy proceeding under Title III of PROMESA, which establishes an in-court debt restructuring process substantially based upon incorporated provisions of the U.S. Bankruptcy Code (11 U.S.C. §§ 101, *et seq.*).

Title III of PROMESA establishes an in-court process for restructuring the debts of Puerto Rico and other United States territories that is modeled after the process under Chapter 9 of the U.S. Bankruptcy Code. In order to be a debtor under Title III, the territory and/or its instrumentalities must: (i) have an Oversight Board established for it or be designated a "covered entity"; (ii) have the Oversight Board issue a restructuring certification under PROMESA section 206(b); and (iii) "desire to effect a plan to adjust its debt." PROMESA § 302. The Oversight Board has sole authority to file a voluntary petition seeking protection under Title III of PROMESA. *See* PROMESA § 304(a).

In a Title III case, the Oversight Board acts as the debtor's representative and is authorized to take any actions necessary to prosecute the Title III case. *See* PROMESA § 315. Immediately upon filing the Title III petition, Bankruptcy Code section 362 (which is incorporated into Title III cases under PROMESA) applies to automatically stay substantially all litigation against the debtor (the Title III Stay). After the Title III case is commenced, the Chief Justice of the United States Supreme Court must designate a district court judge to sit by designation and preside over the Title III proceedings. PROMESA also provides that the commencement of a Title III case "does not limit or impair the powers of a covered territory to control by legislation or otherwise the exercise of the political or governmental powers of the territory or territorial instrumentality." PROMESA § 303.

The core component of the Title III case is the confirmation of a plan of adjustment of the debts of the debtor. The Oversight Board has the exclusive authority to file and modify a plan of adjustment prior to confirmation. *See* PROMESA § 312. In order to be confirmed, a proposed plan of adjustment must meet the requirements set forth under PROMESA section 314.

Title IV of PROMESA contains several miscellaneous provisions, including a temporary stay of litigation related to "Liability Claims," relief from certain wage and hour laws, the establishment of a Congressional Task Force on Economic Growth in Puerto Rico (the Task Force), the requirement that the Comptroller General of the United States submit two reports to Congress regarding the public debt levels of the U.S. territories, and expansion of the federal government's small business HUBZone program in Puerto Rico.

Pursuant to PROMESA section 405, the enactment of PROMESA immediately and automatically imposed a temporary stay (the Title IV Stay) from June 30, 2016 (the date of PROMESA's enactment) through February 15, 2017 of all "Liability Claim" litigation commenced against the government of Puerto Rico and its instrumentalities after December 18, 2015. *See* PROMESA § 405(d)(1)(A). A "Liability Claim" is defined as any right to payment or equitable remedy for breach of performance related to "a bond, loan, letter of credit, other borrowing title, obligation of insurance, or other financial indebtedness for borrowed money, including rights, entitlements, or obligations whether such rights entitlements, or obligations arise from contract, statute, or any other source of law related [thereto]" for which the Commonwealth or one of its instrumentalities was the issuer, obligor, or guarantor and such liabilities were incurred prior to June 30, 2016. PROMESA § 405(a)-(b). The Title IV Stay was subject to a one-time 75-day extension by the Oversight Board or a one-time 60-day extension by the district court. On January 28, 2017, the Oversight Board extended the stay by 75 days to May 1, 2017, at which time the Title IV Stay expired. Any party subject to the Title IV Stay could have filed a motion in the United States District Court for the District of Puerto Rico seeking a relief from the Title IV Stay upon "cause shown." PROMESA § 405(e).

B. Oversight Board Commencement of Title III Cases

On May 1, 2017, the Title IV Stay expired, permitting the substantial litigation brought by bondholders and other creditors against the Commonwealth and its instrumentalities to resume. On May 3, 2017, the Oversight Board commenced a Title III case at the request of the Commonwealth by filing a petition for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico. On May 5, 2017, the Oversight Board commenced a Title III case at the request of COFINA by filing a

similar petition for relief under Title III of PROMESA. On May 11, 2017, United States Supreme Court Chief Justice John Roberts designated United States District Judge Laura Taylor Swain as the presiding judge in the Title III cases.

On May 21, 2017, the Oversight Board commenced Title III cases at the request of the System and Puerto Rico Highways and Transportation Authority (PRHTA) by filing similar petitions for relief under Title III of PROMESA. On July 3, 2017, the Oversight Board commenced a Title III case at the request of Puerto Rico Electric Power Authority (PREPA) by filing a similar petition for relief under Title III of PROMESA. All of the foregoing Title III cases have been consolidated for procedural purposes only and are being jointly administered under Case No. 17-3283-LTS in the United States District Court for the District of Puerto Rico. On June 15, 2017, the United States Trustee appointed an Official Committee of Retired Employees (the Retiree Committee) in the consolidated Title III cases.

The Title III cases were commenced in part due to the May 1, 2017 expiration of the Title IV Stay. Title III of PROMESA incorporates the automatic stay provisions of Bankruptcy Code section 362 and 922, which are made applicable to the Title III cases pursuant to PROMESA section 301(a). Accordingly, upon the filing of the Title III cases, the Title III Stay immediately went into effect to stay creditor litigation.

C. Key Contested Motions in the Title III Cases

On July 17, 2017, the Title III court entered an order approving an agreement (the Joint Stipulation) between the System and certain System bondholders. In the Joint Stipulation, the parties agreed that the System would make interest payments due on October 1, 2017 from the System's Prepetition Segregated Account (which was created pursuant to a stipulation and order dated January 17, 2017) and that these payments would constitute adequate protection for the System bondholders until October 31, 2017 with respect to the Title III stay.

On November 28, 2017, a group of System bondholders filed a motion in the System's Title III case, which requires the System to continue making current monthly interest payments to System bondholders pending resolution of the summary judgment motions in the System Adequate Protection Suit. After a hearing held on December 20, 2017, the Title III court issued a brief oral opinion requiring the System to make monthly interest payments to the System bondholders from a Prepetition Segregated Account pursuant to the Joint Stipulation until the earlier of (i) the Title III court issues a summary judgment ruling in the System Adequate Protection Suit or (ii) the exhaustion of the funds in the Prepetition Segregated Account.

On July 3, 2018, a group of System bondholders filed a motion in the System's Title III case (the System Bondholders' Stay Relief Motion) arguing that the Prepetition Segregated Account was expected to run out of funds in August 2018, depriving System bondholders of adequate protection in the form of monthly interest payments and therefore leaving the System bondholders' constitutionally protected property interests unprotected. The System bondholders assert that relief from the Title III stay is needed in order to maintain the status quo pending the Title III court's resolution of the cross-motions for summary judgment in the System Adequate Protection Suit. In the alternative, the

System bondholders requested adequate protection of their liens on property of the System, in which the Commonwealth now claims an interest.

As discussed in note 13, on August 17, 2018, the Title III court held in the System Adequate Protection Suit that the System bondholders' liens are not perfected, their security interests are avoidable under Bankruptcy Code section 544, and their claims will be treated as general unsecured claims. On August 21, 2018, the Title III court entered an order to that effect by denying the System Bondholders' Stay Relief Motion.

D. Puerto Rico Emergency Moratorium and Financial Rehabilitation Act, Puerto Rico Fiscal Responsibility and Financial Emergency Act and Related Executive Orders

Pursuant to the Moratorium Act, the Governor issued a series of executive orders declaring an emergency period, a moratorium and various other measures with respect to certain obligations of the Commonwealth and several of its instrumentalities, including the System. Pursuant to these executive orders, certain Commonwealth entities have either: (i) not made debt service payments, (ii) made debt service payments with funds on deposit with the trustees of their bonds, and/or (iii) not received or transferred certain revenues. Such executive orders also placed significant restrictions on the disbursement of funds deposited at GDB and suspended the disbursement of loans by GDB. These executive orders restricted the System's ability to withdraw any funds held on deposit at GDB and to receive any disbursements on loans granted by GDB. These executive orders also suspended the obligation of the Commonwealth to transfer certain revenues previously allocated to the System.

Act No. 5 repealed certain provisions of the Moratorium Act and authorized additional emergency measures. Pursuant to Act No. 5, however, the executive orders issued under the Moratorium Act would continue in effect until amended, rescinded or superseded. The emergency period under Act No. 5 will expire December 31, 2018, unless extended by the Governor. Some additional powers provided to the Governor through Act No. 5 include the authority to: (i) exercise receivership powers to rectify the financial emergency, (ii) exercise general supervisory control over the functions and activities of all government entities within the Executive Branch, and (iii) issue executive orders to implement and enforce compliance with Act No. 5.

E. Sale of System Investments

On June 23, 2017, the Legislative Assembly approved certain other assignments for fiscal year 2018 under Joint Resolution 188, which among other things, ordered the System, JRS, and TRS to liquidate their assets and pass the net proceeds to the Treasury Department. On July 20, 2017, the System sold investments in the total aggregate amount of approximately $297 million.

F. PayGo Pension Reform

On June 27, 2017, the Treasury Department issued Circular Letter No. 1300-46-17 in order to convey to the central government agencies, public corporations and municipalities the new implementation procedures to adopt, effective July 1, 2017, a new "pay-as-you-go" (PayGo) mechanism for the System.

Subsequently, on August 23, 2017, the Governor signed into law the "Act to Guarantee the Payment to Our Pensioners and Establish a New Plan for Defined Contributions for Public Servants" (Act No. 106), which reformed the Commonwealth Retirement Systems. Act No. 106 terminated the previously existing pension programs for the System's participants as of June 30, 2017. The members of the prior programs and new system members hired on and after July 1, 2017 are now enrolled in a new defined contributions program. Act No. 106 also established by law the PayGo mechanism for the payment of accumulated pension benefits and eliminated employers' contributions and other analogous contributions. Approximately $2 billion was allocated for the payment of PayGo benefits in each of the budgets for fiscal year 2018 and fiscal year 2019.

Furthermore, Act No. 106 modified the System's governance. Under Act No. 106, the System's Board of Trustees was substituted with a new Retirement Board, which is currently responsible for governing all of the Commonwealth's Retirement Systems.

Act No. 106 also ordered a suspension of the System' loan programs and ordered a merger of the administrative structures of the retirement systems. At the Retirement Board's discretion, the servicing of the System's existing loan portfolio may be externalized. Pursuant to Act No. 106, the employees of the System that are not retained under the new administrative structure will be transferred to other public agencies in conformity with Act No. 8 of February 8, 2017.

For additional information regarding litigation related to Act No. 106 and the PayGo system, refer to note 13.

G. Bonds Credit Rating Downgrades

On June 24, 2016, Fitch Ratings Inc. downgraded the System's Bonds from "CC" to "C" and placed them on "negative" outlook. Fitch cited "the breakdown of negotiations between the Commonwealth and major bondholders, the recent ruling by the U.S. Supreme Court on the Commonwealth's bankruptcy legislation, and the slow process of federal legislation in support of the Commonwealth" as indicators that a debt restructuring, deferral or default has become inevitable. On April 5, 2017, Moody's Investors Service downgraded the System's Bonds to from "C" to "Ca" and placed them on "negative" outlook, citing "persistent pressures on Puerto Rico's economic base that indicate a diminishing perceived capacity to repay." Standard & Poor's Ratings Services currently rates the System's Bonds at "CC."

H. Impact of Hurricanes Irma and Maria

On September 20, 2017, Hurricane Maria made landfall in Puerto Rico. As a result of Hurricane Maria, the System's headquarters suffered major damages. In order to continue operations, the System had to relocate its offices and entered into a lease agreement with the Puerto Rico Public Buildings Authority. As a result of the relocation, the System eliminated certain of its prior contracts related to auxiliary services and negotiated new ones. As of the date hereof, management is in the process of determining the extent of damages from the hurricanes.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Changes in the Employers' Net Pension Liability and Related Ratios – Pension Benefits (Unaudited)

Years ended June 30, 2016 and 2015

(Dollars in thousands)

		2016 Amount	2015 Amount
Total pension liability:			
Service cost	$	496,732	425,564
Interest		1,230,843	1,279,556
Differences between expected and annual experience		(252,405)	(463,898)
Changes in assumptions		3,853,693	2,781,098
Benefit payments, including refunds of contributions		(1,565,152)	(1,572,675)
Net change in total pension liability		3,763,711	2,449,645
Total pension liability – beginning		32,669,162	30,219,517
Total pension liability – ending (a)		36,432,873	32,669,162
Plan's fiduciary net position (deficit):			
Employer contributions – net of provision		779,477	673,926
Member contributions		333,633	339,650
Net investment income		870	29,258
Other income		110,201	28,499
Benefit payments, including refunds of member contributions		(1,565,152)	(1,572,675)
Administrative expenses		(27,670)	(33,623)
Interest on bonds payable		(196,211)	(194,400)
Other expenses		(32,761)	(19,573)
Net change in plan fiduciary net position		(597,613)	(748,938)
Total fiduciary net position – beginning		(668,272)	80,666
Total fiduciary net position (deficit)– ending (b)		(1,265,885)	(668,272)
Employers' net pension liability – ending (a)-(b)	$	37,698,758	33,337,434
Plan's fiduciary net position (deficit) as a percentage of the total pension liability		(3.47)%	(2.05)%
Covered employee payroll	$	3,344,382	3,319,280
Employers' net pension liability as a percentage of covered employee payroll		1,127.23 %	1,004.36 %

Note: Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

See accompanying notes to required supplementary information and independent auditors' report.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Investment Return – Pension Benefits (Unaudited)

Years ended June 30, 2016 and 2015

	2016	2015
Annual money-weighted rate of return, net of investment expenses	6.7 %	4.2 %

Note: Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

See accompanying notes to required supplementary information and independent auditors' report.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Employers' Contributions – OPEB (Unaudited)

(Dollars in thousands)

Fiscal year ended (1)		Annual required contributions	Actual employers' contributions	Percentage of contribution
June 30, 2016	$	107,739	93,728	87.0
June 30, 2015		103,878	97,374	93.7
June 30, 2014		88,508	102,085	115.3
June 30, 2013		154,999	91,823	59.2
June 30, 2012		133,654	94,664	70.8
June 30, 2011		129,395	93,851	72.5
June 30, 2010		128,294	88,599	69.1

(1) The System's annual required contributions for the year ended June 30, 2016 and 2015 were determined by the actuarial valuation at beginning of year that was updated to roll forward the funded status to June 30, 2016 and 2015 and assuming no liability gains or losses. Prior year actuarial valuations were made using end-of-year census data.

See accompanying notes to required supplementary information and independent auditors' report.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT
OF THE COMMONWEALTH OF PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Funding Progress – OPEB (Unaudited)

(Dollars in thousands)

Actuarial valuation date (1)	Actuarial value of plan assets	Actuarial accrued liability (AAL)	Unfunded Actuarial accrued liability (UAAL)	Funded ratio	Annual covered payroll	UAAL percentage of annual covered payroll
June 30, 2016	$ —	1,349,503	1,349,503	— %	$ 3,344,382	40.4 %
June 30, 2015	—	1,428,788	1,428,788	—	3,319,280	43.0
June 30, 2014	—	1,438,475	1,438,475	—	3,489,096	41.2
June 30, 2013	—	1,482,879	1,482,879	—	3,489,096	42.5
June 30, 2012	—	2,120,970	2,120,970	—	3,570,339	59.4
June 30, 2011	—	1,758,389	1,758,389	—	3,666,402	48.0
June 30, 2010	—	1,699,373	1,699,373	—	3,818,332	44.5

(1) The System's OPEB funded status as of June 30, 2016 and 2015 were determined by the actuarial valuation at beginning of year that was updated to roll forward the funded status to June 30, 2016 and 2015 and assuming no liability gains or losses. Prior year actuarial valuations were made using end-of-year census data.

See accompanying notes to required supplementary information and independent auditors' report.

REQUIRED SUPPLEMENTARY INFORMATION

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Required Supplementary Information

June 30, 2016

(1) Changes in Benefits Terms

There have not been any changes in plan provisions since the prior valuation.

(2) Changes in Assumptions

Actuarial assumptions are revised periodically to more closely reflect actual, as well as anticipated future experience.

In fiscal years 2016 and 2015, the investment return assumption is 6.55% for both years. Accordingly, the assumed investment return on the defined contribution hybrid account (80% of the net investment return assumption) for fiscal years 2016 and 2015 is 5.24% for both years.

The projected mortality improvement scale was updated from Scale MP-2015 to Scale MP-2016, which was published by the Society of Actuaries in October 2016. Also, as Scale MP-2015 is a two-dimensional mortality scale, the base mortality rates for the post-retirement mortality assumption were set to the 2010 rates – the central year of the 2007 to 2012 System experience study upon which the rates were based. In addition, the pre-retirement mortality rates were also updated to reflect updated mortality tables published by the Society of Actuaries.

The asset basis for the date of depletion projection is the System's fiduciary net position (the gross assets plus deferred outflows of resources less the gross liabilities, including the senior pension funding bonds payable, plus deferred inflows of resources). On this basis, the System's fiduciary net position was exhausted in the fiscal year 2015.

In addition, the date of depletion projection of the actuarial report does not include any amounts from the additional uniform contribution required by Act No. 32 because of actual fiscal and budgetary financial difficulties with continued budget deficits and liquidity risks of the Commonwealth and the municipalities and in the event that their financial condition does not improve in the near term.

The System's fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the tax free municipal bond index (Bond Buyer General Obligation 20-Bond Municipal Bond Index) was applied to all periods of projected benefits payments to determine the total pension liability.

The discount rate used to determine the total pension liability decreased from 3.80% at June 30, 2015 to 2.85% at June 30, 2016, determined under GASB Statement No. 67. The discount rate used at June 30, 2014 was 4.29%. Under GASB Statement No. 67, the investment return assumption is an input that is used in the calculation of the single equivalent interest rate that is used to discount these benefits to determine the Total Pension Liability. Under former GASB Statements No. 25 and No. 27, the investment return assumption was used to discount all projected Basic System Pension Benefits and System Administered Pension Benefits to determine the Actuarial Accrued Liability. For fiscal years 2008 to 2010 and for fiscal years 2011, 2012 and 2013, the discount rates determined under GASB Statements No. 25 and No. 27 were 7.50%, 6.40%, 6.00% and 6.40%, respectively.

Also, the valuations for fiscal year 2016 and 2015 reflect a salary freeze until July 1, 2017 due to Act No. 66 and the current economic conditions in Puerto Rico.

(3) Changes in Actuarial Methods since the prior Valuation

There have not been any changes in methods since the prior valuation.

In fiscal years 2016 and 2015, the census data collection date is as of beginning-of-year. The total pension liability at end of year was determined by actuarial valuation as of the census data collection date at beginning-of-year and was then projected forward to end-of-year, using roll-forward methods and assuming no liability gains or losses.

The June 30, 2016, actuarial valuation reflects an increase of $4,361 million in the net pension liability as a result of the changes in assumptions of $3,854 million, mainly related to the decrease in the discount rate as required by GASB Statement No. 67 from 3.80% in fiscal year 2015 to 2.85% in fiscal year 2016 and the Plan Fiduciary Net Deficit Position of approximately $1,266 million as of June 30, 2016.

(4) Method and Assumptions Used in the System's Actuarial Valuation

The following actuarial methods and assumptions were used in the System's actuarial valuation of June 30, 2016:

Actuarial cost method	Entry age normal
Asset valuation method	Market value of assets
Inflation	2.50%
Municipal bond index	2.85%, as per Bond Buyer General Obligation 20-Bond Municipal Bond Index
Projected salary increases	3.00% per year. No compensation increases are assumed until July 1, 2021 as a result of Act No. 3 of 2017, four year extension of the Act 66-2014 and the current general economy.

Mortality	Pre-retirement Mortality: For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2016 from the 2006 base year, and projected forward using MP-2016 on generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2016 from the 2006 base year, and projected forward using MP-2016 on generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127. Post-retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2016 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date. Post-retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2016 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Exhibit 79

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements and Required Supplementary Information

June 30, 2017

(With Independent Auditors' Report Thereon)

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Table of Contents

KPMG LLP
American International Plaza
Suite 1100
250 Muñoz Rivera Avenue
San Juan, PR 00918-1819

Independent Auditors' Report

To the Retirement Board of the Government of Puerto Rico
Employees' Retirement System of
the Government of the Commonwealth of Puerto Rico:

We have audited the accompanying financial statements of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the System), which comprises the statement of fiduciary net position as of June 30, 2017, the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, which collectively comprise the System's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico as of June 30, 2017, and the changes in its fiduciary net position for the year then ended, in accordance with U.S. generally accepted accounting principles.

KPMG

Emphasis of Matters

Uncertainty about Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the System will continue as a going concern. As discussed in notes 3 and 14 to the basic financial statements, the System is severely underfunded, sold its remaining investments in the aggregate amount of approximately $297 million, and started operating on a pay as you go basis in fiscal year 2018. Additionally, on May 3, 2017 and May 22, 2017, the Financial Oversight and Management Board commenced cases for the Commonwealth of Puerto Rico and the System, respectively, by filling petitions for relief under Title III of the Puerto Rico Oversight, Management, and Economic Stability Act with the United States District Court for Puerto Rico. Accordingly, management of the System has stated that substantial doubt exists about the System's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also included in note 3. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3–14 and the schedules in pages 75-81 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

San Juan, Puerto Rico
June 29, 2020

Stamp No. E403599 of the Puerto Rico
Society of Certified Public Accountants was
affixed to the record copy of this report.

**EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT
OF THE COMMONWEALTH OF PUERTO RICO**
(A Component Unit of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis (Unaudited)

June 30, 2017

Introduction

The following discussion and analysis of the financial performance of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the System) provides an overview of its activities for the fiscal year ended June 30, 2017. Its purpose is to provide explanations and insights into the information presented in the basic financial statements and required supplementary information. This discussion and analysis is intended to be read in conjunction with the System's financial statements.

The System is a trust created by the Legislature of the Commonwealth of Puerto Rico (the Legislature) in 1951 pursuant to Act No. 447 of May 15, 1951, as amended, to provide pension and other benefits to retired employees of the Commonwealth of Puerto Rico (the Commonwealth), its public corporations and municipalities. Prior to August 23, 2017, the System was administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration (the ERS and JRS Administration) and governed by a board of trustees (the Board of Trustees).

Prior to August 23, 2017, the System administered a cost-sharing, multi-employer, pension plan consisting of three benefit structures: (i) a cost-sharing, multi-employer, defined benefit program, (ii) a defined contribution program (System 2000 program), and (iii) a contributory hybrid program. The System also administered post-employment healthcare benefits provided by the Commonwealth to retired plan members (Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities Medical Insurance Plan Contribution – ERS MIPC).

The System is considered an integral part of the financial reporting of the Commonwealth and is included in the Commonwealth's basic financial statements as a pension trust fund.

Overview of the Basic Financial Statements

The following discussion and analysis is intended to serve as an introduction to the System's basic financial statements. The basic financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP) as applicable to governmental organization per Governmental Accounting Standards Board (GASB) pronouncements and include the following:

- The Statement of Fiduciary Net Position presents the financial position of the System at fiscal year-end. It provides information about the nature and amounts of resources with present service capacity that the System presently controls (assets), consumption of net assets by the System that is applicable to a future reporting period (deferred outflow of resources), presents obligations to sacrifice resources that the System has little or no discretion to avoid (liabilities), and acquisition of net assets by the System that is applicable to a future reporting period (deferred inflow of resources) with the difference between assets/deferred outflow of resources and liabilities/deferred inflow of resources being reported as net position. Investments are shown at fair value. All other assets and liabilities are determined on an accrual basis.
- The Statement of Changes in Fiduciary Net Position presents the results of activities during the fiscal year. All changes affecting the assets/deferred outflow of resources and liabilities/deferred inflow of resources of the System are reflected on an accrual basis of when the activity occurred, regardless of the timing of the related cash flows. Changes in the fair values of investments are included in the year's activity as net appreciation (depreciation) in fair value of investments.

- The Notes to the Basic Financial Statements **–** provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes present information about the System's accounting policies, significant account balances and activities, material risks, obligations, contingencies, and subsequent events, if any.

Required Supplementary Information is presented after the notes to the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB. It consists of information pertaining to the System's actuarial methods and assumptions and provides data on changes in the employers' net pension liability and related ratios, the pension benefits employers' contributions, and the pension benefits' investment return as well as data on the System's other postemployment benefits.

Financial Highlights

Prior to August 23, 2017, the System provided retirement benefits to employees of the Commonwealth, its public corporations and municipalities. The System's total assets as of June 30, 2017 and 2016 amounted to approximately $1,505 million and $2,284 million, respectively.

As of June 30, 2017, the System's total assets consisted of the following:

- $345 million of investments in bonds, stocks and non-exchange commingled trust funds
- $87 million in investments in limited partnerships
- $523 million in member loans and interest receivable
- $539 million in cash and cash equivalents, receivables and collateral from securities lending transactions.
- $11 million in capital and other assets

The System's total assets as of June 30, 2017 are presented in the following chart (in millions):

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

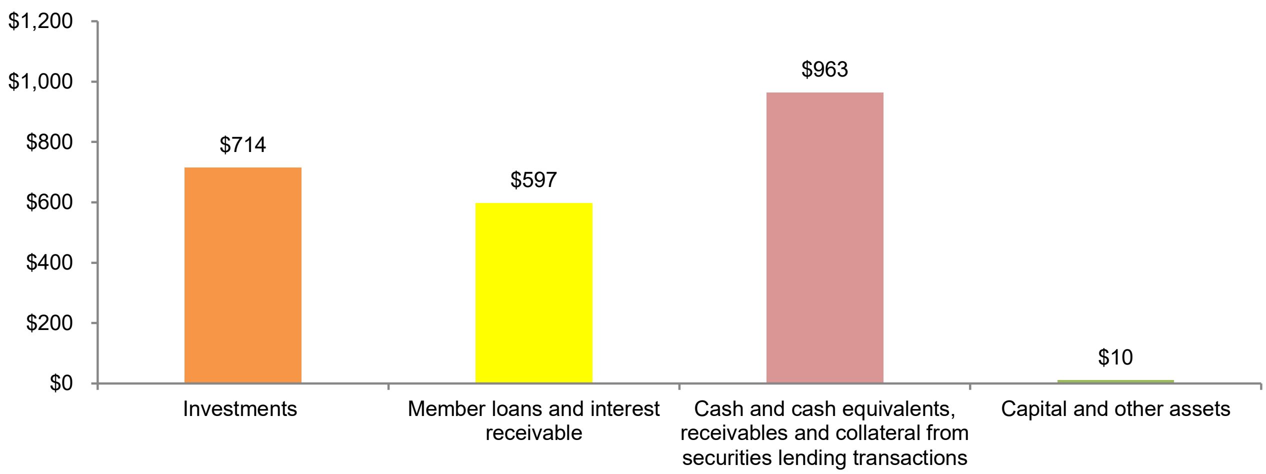
Management's Discussion and Analysis (Unaudited)

June 30, 2017

As of June 30, 2016, the System's total assets consisted of the following:

- $667 million of investments in bonds, stocks and non-exchange commingled trust funds
- $47 million in investments in limited partnerships
- $597 million in member loans and interest receivable
- $963 million in cash and cash equivalents, receivables and collateral from securities lending transactions.
- $10 million in capital and other assets

The System's total assets as of June 30, 2016 are presented in the following chart (in millions):



- The System has been in a deficit position since fiscal year 2015. The System's total liabilities exceeded total assets, representing a fiduciary net deficit position of approximately $2,109 million as of June 30, 2017, compared with fiduciary net position of approximately $1,266 million as of June 30, 2016.
- The plan's fiduciary net deficit position as a percentage of the total pension liability was negative 7.01% at June 30, 2017 and negative 3.47% at June 30, 2016.
- The medical insurance plan contribution, which constitutes the other postemployment healthcare benefits, is financed by the Commonwealth on a pay-as-you-go basis and consequently is unfunded.

**EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT
OF THE COMMONWEALTH OF PUERTO RICO**
(A Component Unit of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis (Unaudited)

June 30, 2017

The following schedules present comparative summary financial statements of the System's fiduciary net position and changes in fiduciary net position for fiscal years 2017 and 2016:

Comparative Summary of Fiduciary Net Position – Pension Benefits

	2017	2016	Total dollar change	Total percentage change
		(Dollars in thousands)		
Assets:				
Cash and cash equivalents, receivables-net and collateral from securities lending transactions	$ 538,520	962,706	(424,186)	(44.1)%
Investments	431,955	714,214	(282,259)	(39.5)
Member loans and interest receivable – net	523,443	596,997	(73,554)	(12.3)
Capital assets and other	10,718	10,487	231	2.2
Total assets	1,504,636	2,284,404	(779,768)	(34.1)
Liabilities:				
Accounts payable and accrued liabilities	279,366	104,315	175,051	167.8
Bond interest payable	14,076	14,094	(18)	(0.1)
Payable for investment securities purchased	—	1,609	(1,609)	(100.0)
Securities lending obligations	7,359	19,754	(12,395)	(62.7)
Due to Commonwealth of Puerto Rico	98,044	91,474	6,570	7.2
Escrow funds of mortgage loans and guarantee insurance reserve for loans to plan members	11,018	10,467	551	5.3
Accrued Investment Expense	541	—	541	100.0
Bonds payable	3,166,472	3,134,902	31,570	1.0
Other liabilities	36,613	173,674	(137,061)	(78.9)
Total liabilities	3,613,489	3,550,289	63,200	1.8
Net position (deficit)	$ (2,108,853)	(1,265,885)	(842,968)	66.6%

 (Continued)

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis (Unaudited)

June 30, 2017

Comparative Summary of Changes in Fiduciary Net Position – Pension Benefits

	2017	2016	Total dollar change	Total percentage change
		(Dollars in thousands)		
Additions:				
Contributions:				
Employer contributions:				
Basic benefits	$ 726,911	582,803	144,108	24.7%
Special benefits	194,626	196,674	(2,048)	(1.0)
Member contributions	320,095	333,633	(13,538)	(4.1)
Net investment income	28,155	37,345	(9,190)	(24.6)
Other income	56,626	52,791	3,835	7.3
Total additions	1,326,413	1,203,246	123,167	10.2
Deductions:				
Benefits paid to participants	1,524,695	1,532,640	(7,945)	(0.5)
Refunds of contributions	35,229	34,937	292	0.8
Interest on bonds payable	198,084	196,211	1,873	1.0
General and administrative	24,358	27,670	(3,312)	(12.0)
Other expenses	387,015	9,401	377,614	4,016.7
Total deductions	2,169,381	1,800,859	368,522	20.5
Net decrease in net position	(842,968)	(597,613)	(245,355)	41.1
Net position (deficit):				
Beginning of year	(1,265,885)	(668,272)	(597,613)	89.4
End of year	$ (2,108,853)	(1,265,885)	(842,968)	66.6%

Going Concern

The discussion in note 3 to the financial statements provides information regarding the System's going concern uncertainty.

As of June 30, 2017, the System was a mature retirement system with a significant retiree population. The System's net pension liability and the fiduciary net deficit position as a percentage of the total pension liability (the funded ratio) as of June 30, 2017, are approximately $32,201 million and negative 7.01%, respectively. The System had been in a deficit position since fiscal year 2015. Based on the statutory funding requirements, the annual benefit payments and administrative expenses paid by the System were significantly larger than the member and employers' contributions to the System. Due to the small asset base, investment income was insufficient to cover the negative cash flow. Illiquid assets (total receivables, member loans and related interest receivable, COFINA investment and investments in limited partnership) amounted to approximately $723 million or 48% of the System's total assets as of June 30, 2017.

As described in notes 3 and 14 to the financial statements, in July 2017, the System sold investments amounting to approximately $297 million and transferred approximately $190 million of the net proceeds to the Treasury Department as required under Joint Resolution 188.

On June 30, 2016, the U.S. Congress enacted the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA), which automatically put into effect a temporary stay of all debt-related litigation against the Commonwealth and its covered instrumentalities, including the System, pursuant to section 405 of PROMESA (the Title IV Stay). On May 1, 2017, the Title IV Stay expired, permitting substantial litigation to resume against the Commonwealth and its covered instrumentalities, including the System. On May 3, 2017, the Financial Oversight and Management Board for Puerto Rico established under PROMESA (the Oversight Board), at the request of the Governor of Puerto Rico (the Governor), commenced a Title III case for the Commonwealth by filing a petition for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico (the Title III Court). On May 21, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for the System by filing a similar petition for relief under Title III of PROMESA in the Title III Court.

On August 23, 2017, the Commonwealth enacted the Act to Guarantee the Payment to Our Pensioners and Establish a New Plan for Defined Contributions for Public Servants (Act 106-2017), which completely changed the System by, among other things, (i) replacing the governing boards of the System, the Retirement System for the Judiciary of the Commonwealth of Puerto Rico (JRS), and the Puerto Rico System of Annuities and Pensions for Teachers (TRS, and collectively with the System and JRS, the Retirement Systems) with a single Retirement Board of the Commonwealth of Puerto Rico (the Retirement Board) and (ii) implementing a "pay-as-you-go" (PayGo) method for the payment of pension benefits by the Commonwealth rather than the System. Act 106-2017 created the legal framework for the Commonwealth to guarantee payments to pensioners through the PayGo system.

Comparative Summary of Fiduciary Net Position Analysis – Pension Benefits

The basic financial statements of the System for the fiscal year ended June 30, 2017, present a decrease in net position of approximately $843 million, resulting in a net deficit position of approximately $2,109 million as of June 30, 2017, compared with a deficit net position of approximately $1,266 million as of June 30, 2016. The decrease in the net position (increase in deficit) in fiscal year 2017 resulted from the excess of deductions, mainly other expenses and benefits paid to participants, over additions, mainly contributions from participating employers and employees. The decrease in net position is mainly caused by a decrease in employer contributions receivable of approximately $204 million in fiscal year 2017.

Total contributions from participating employers and members increased by approximately $129 million, from $1,113 million during fiscal year 2016 to approximately $1,242 million during fiscal year 2017. Total net investment and securities lending transaction income decreased by approximately $9 million, from approximately $37 million during fiscal year 2016 to approximately $28 million during fiscal year 2017. The System recognized a net depreciation in the fair value of investments of approximately $8 million during fiscal year 2017, compared with a net appreciation in the fair value of investments of approximately $900 thousand recognized in fiscal year 2016. Also, the System recognized an impairment loss on deposits with a governmental bank of approximately $21 million in fiscal year 2016 and $9 million in fiscal year 2017 (refer to note 6 to the financial statements).

Total deductions increased by approximately $369 million in fiscal year 2017, mainly as a result of the increase of approximately $378 million in other expenses and the decrease of approximately $8 million in benefits paid to participants. Benefits paid to participants amounted to approximately $1,525 million for fiscal year 2017 and approximately $1,533 million for fiscal year 2016. General and administrative expenses amounted to approximately $24 million for fiscal year 2017 and approximately $28 million for fiscal year 2016.

During fiscal year 2007, the Board of Trustees approved the issuance of bonds payable to increase the funds available to pay pension benefits to certain beneficiaries and to reduce the unfunded accrued actuarial liability. As of June 30, 2017, bonds payable amounted to approximately $3,166 million.

Other Post-employment Healthcare Benefits

Other post-employment healthcare benefits paid during fiscal year 2017 amounted to approximately $91.2 million, a decrease of approximately $2.8 million or 3% as compared to the $93.7 million paid during fiscal year 2016. Effective July 1, 2013, no benefits are provided to new retirees, as required by Act No. 3 of 2013.

Financial Analysis of the System

As of June 30, 2017 and 2016, the System held approximately $523 million and $597 million, respectively, in loans and interest receivable from plan members, which represents 55% and 46%, respectively, of the total investment portfolio, including loans. As of June 30, 2017, member loans and interest receivable consisted of $161 million in mortgage loans, $299 million in personal loans, $37 million in cultural trip loans, and $29 million in interest receivable, less $3 million in allowance for adjustments and losses in realization. As of June 30, 2016, member loans and interest receivable consisted of $170 million in mortgage loans, $351 million in personal loans, $45 million in cultural trip loans, and $34 million in interest receivable, less $3 million in allowance for adjustments and losses in realization. As of June 30, 2017, and 2016, the fair value of the System's investment in limited partnerships amounted to approximately $87 million and $47 million, respectively, which represented approximately 9% and 4% of the investment portfolio, as of June 30, 2017 and 2016, respectively.

The System earns additional investment income by lending investment securities to brokers via its custodian's securities lending program. The brokers provide collateral to the System and generally use the borrowed securities to cover short sales and failed trades. The cash collateral received from the brokers is invested in a short-term investment fund in order to earn interest. For the years ended June 30, 2017 and 2016, net income from the securities lending activity amounted to approximately $30,000 and $113,000, respectively.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

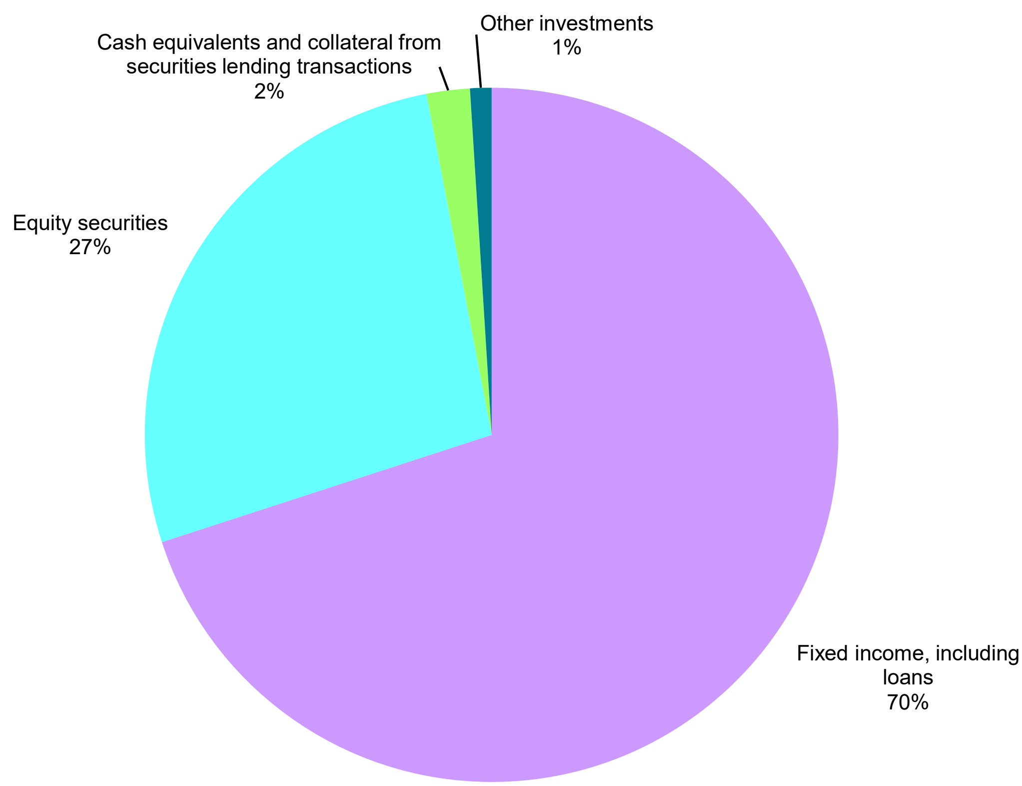
Management's Discussion and Analysis (Unaudited)

June 30, 2017

Investment Portfolio and Capital Markets Overview

The System's total investment assets, including member loans, collateral from securities lending transactions and cash equivalents (investment portfolio, including loans), as of June 30, 2017 totaled approximately $979 million. Member loans amounted to $523 million as of June 30, 2017.

As of June 30, 2017, the System's investment portfolio allocation, including member loans, was 70% in fixed-income investments, including loans receivable, 27% in equity securities, 2% in cash and short-term investments, and 1% in other investments as shown in the following chart:



(Continued)

Economy and Capital Markets Overview

United States Equity Overview for the fiscal year 2017: As of June 30, 2017, the S&P 500 was near a record high, up almost 15% since the U.S. presidential election in November 2016. It was the 26th new high in calendar year 2017. The market growth during this period was led by technology and financial stocks. Most of the economic statistics in the U.S. remained strong and were improving globally. The 2017 fiscal year concluded with a quarter-point rate hike by the Federal Reserve as they remained committed to their plan to normalize monetary policy.

International Equity Overview for the Fiscal year 2017: International equity markets were the best performers for fiscal year 2017. The ACWI ex US index was up 20.5% in U.S. dollar terms and emerging markets were up almost 24% for the trailing 12 months. All global regions participated in this growth, led by over 26% growth among developed, small-capitalized companies and with very few countries up less than 10%. Unlike the United States, the developed market growth index lagged the developed market value index for the prior year.

United States Fixed Income Overview for the Fiscal Year 2017: U.S. Treasuries, TIPS and municipal positions were all slightly negative for fiscal year 2017. High yield was the strong positive outlier up over 12%. Investment grade managers performed well if they participated more heavily in the credit sectors as spreads tightened across all credit qualities. Many non-dollar debt positions benefited with dollar weakness creating outsized performance in a more globally diverse fixed income portfolio.

Total Fund Performance

The total fund (excluding GDB cash) earned 6.5% net of investment manager fees for fiscal year 2017. The results were disappointing as the market had performed strongly since the U.S. presidential election in November 2016, but the System was not able to fully participate. Less than one-third of the remaining assets were liquid. The majority of the assets, approximately $523 million, were in the current employee and retiree loan program. The asset allocation plan adopted in fiscal year 2016 was never fully implemented. With the change in the System administration, a decision was made to use the remaining liquid assets to fund benefit payments.

Over the fiscal year, the investment fund had net cash out flows of approximately $416 million. These outflows were largely used for benefit payments and represent 33% of the beginning year balance.

Though the System was not able to fully take advantage of the strong equity market returns during this fiscal year with the need to raise substantial cash, the fund did earn 6.5% resulting in approximately $69 million in additional gains to the portfolio. As the liquid assets are removed, the focus will be two-fold. One, how to best manage the illiquid investments to maximize the benefit to the plan and two, how the entity must continue to service its members.

Other Investments and Member Loans Transactions

As of June 30, 2017, the System held approximately $523 million in member loans which represented 55% of the total investment portfolio, including loans. Member loan balances as of June 30, 2017 were $74 million lower than a year ago.

At the end of the 2017 fiscal year, the System had some exposure to limited partnerships of private equity investments valued at approximately $87 million, which represented 9% of the System's total investment portfolio, including member loans.

Funding Status

The System was created by Act No. 447 of May 15, 1951 (Act No. 447) and, since its inception, lacked proper planning and funding. The levels of contributions were relatively low in comparison to the level of benefits. As more people joined the government labor force and then retired under the different benefit structures, the gap between the assets available to pay benefits and the actuarial obligation started its steeping course.

During fiscal year 2007, the Board of Trustees approved the issuance of bonds in an effort to increase the funds available to pay pension benefits and to reduce the unfunded accrued actuarial pension liability. In connection with the Bonds, the System pledge employers contributions, as defined in the ERS Bond Resolution, made after the date of issuance of the first series of Bonds to the payment of the Bonds, invested the proceeds of the Bonds, and used these investments and the earnings thereon to provide pension benefits to beneficiaries. Specifically, on January 31, 2008, the System issued the first series of the Bonds, which consisted of approximately $1,589 million aggregate principal amount of Senior Pension Funding Bonds, Series A. On June 2, 2008, the System issued the second of such series of Bonds, which consisted of approximately $1,059 million aggregate principal amount of Senior Pension Funding Bonds, Series B. Finally, on June 30, 2008, the System issued the third and final of such series of Bonds, which consisted of approximately $300 million aggregate principal amount of Senior Pension Funding Bonds, Series C.

Despite these efforts, the System's actuarial obligation continued its increasing trend as a result of the growth in the size and longevity of the pensioner population and the fact that incoming pensioners were entitled to even higher annuities based on their higher salaries.

Prior to fiscal year 2017, the Commonwealth enacted a series of laws to deal with the funding issues that the System experienced. For example, in 2011, the Commonwealth enacted Law 116 to increase the employers' contribution rate from 9.275% to 10.275% of employee compensation for the 2011-2012 fiscal year, 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, capped at an aggregate contribution rate of 20.525% effective July 1, 2020. Other measures taken to improve the System's funding, included: (1) improving the collection of late contributions by receiving such contributions directly from the Municipal Revenue Collection Center (known as CRIM by its Spanish acronym) when a municipality fails to send their contributions within 30 days from the due date or from the Department of Treasury of the Commonwealth in the case of public corporations; (2) implementation of Act No. 70 establishing early retirement incentives; (3) revision of the Employee Personal Loan Policy by reducing personal and cultural loan amounts to $5,000 each, from $15,000 and $10,000, respectively; and (4) the receipt of approximately $162.5 million in bonds issued by the Puerto Rico Sales Tax Financing Corporation (known as COFINA by its Spanish acronym).

In 2013, the Commonwealth enacted Law 3 that reformed the System by, among other measures, reducing benefits, increasing employee contributions, and, in the case of active employees who were entitled to the defined benefits program, replacing most of the defined benefit elements of the system with a defined contribution system. Based on the statutory funding requirements prior to this reform, the annual benefit

payments and administrative expenses of the System were significantly larger than the member and employer contributions made to the System.

Act No. 3 2013 amended Act No. 447, Act No. 1 of 1990 (Act No. 1) and Act No. 305 to establish, among other things, a defined contribution program similar to the System 2000 Program (the Contributory Hybrid Program) to be administered by the System. All regular employees hired for the first time on or after July 1, 2013, became part of the Contributory Hybrid Program. Also, Act No. 3 froze all retirement benefits accrued through June 30, 2013 under the Defined Benefit Program, and thereafter, all future benefits accrued under the defined contribution formula used for the 2000 System Program participants. Ceasing future defined benefit accruals under Act No. 447 and Act No. 1 and converting to a member-funded hybrid plan resulted in lower benefit payments.

On June 27, 2017, the Treasury Department issued Circular Letter No. 1300-46-17 in order to convey to the Commonwealth central government agencies, public corporations and municipalities the procedures to adopt, effective, July 1, 2017, the new "pay-as-you-go" (PayGo) system. With the start of the fiscal year 2018, employers' contributions, contributions ordered by special laws, and the Additional Uniform Contribution were eliminated. A monthly PayGo charge was implemented to cover the actual cost of pension payments and that is remitted by the aforementioned government entities to pay benefits to their respective retirees. The System helps determine and administer the payment amount per each current retiree that is charged to each Commonwealth central government agency, public corporation and municipality.

On August 23, 2017, the Governor signed into law Act 106-2017, which created the legal framework for the Commonwealth to guarantee payments to pensioners through the PayGo system. Among other things, Act 106-2017 also created a Defined Contribution Plan for current employees under which future benefits will not accumulate.

At June 30, 2017, the System's pension plan consisted of three different benefit structures, which were administrated according to the specifications in each applicable pension benefit law. For all plan members, employee contributions range from 8.275% to 10% of their salary, as specified by the employee. Under all structures, employers' contributions during the fiscal year ended June 30, 2017 were 15.275% of the employee salary. Based on the last actuarial valuation at June 30, 2017, the employers' net pension liability amounted to approximately $32,201 million, with a plan fiduciary net deficit position as a percentage of the total pension liability of negative 7.01%. The liability for postemployment healthcare benefits amounted to approximately $1,138 million as of June 30, 2017 and was fully unfunded.

Capital Assets

The total aggregate amount of the System's investment in capital assets (net of accumulated depreciation) was approximately $9.9 million and $9.7 million as of June 30, 2017 and June 30, 2016, respectively. Capital assets include land, building and improvements, construction in progress, and equipment. Building and improvements consist of the facilities in which the System conducts its operations.

Debt Administration

Long-term debt obligations include the System's senior funding bonds and amounted to approximately $3,166 million and $3,135 million as of June 30, 2017 and 2016, respectively. The System has issued three series of revenue bonds designated as "Senior Pension Funding Bonds", the proceeds of which were used mainly to increase the funds available to pay pension benefits to certain of its beneficiaries and reduce its unfunded actuarial accrued liability. The Bonds are limited, nonrecourse obligations of the System, payable solely from and secured solely by a pledge of employer contributions, as defined in the ERS Bond Resolution, made after the date of issuance of the first series of Bonds, and from funds held on deposit with the Bank of New York Mellon (the Fiscal Agent). The Bonds are not payable from contributions made to the System by participating employees, or from the assets acquired with the proceeds of the Bonds, or from employer contributions released by the Fiscal Agent to the System after funding of required reserves, or from any other assets of the System. These bonds are currently rated "C" by Moody's Investors Service and "CC" by Standard & Poor's Ratings Services. Refer to note 10 to the basic financial statements for further information regarding the System's long-term obligations. For the suspension of the monthly payments to the trustee of the System's bonds, refer to note 14 of the basic financial statements.

Requests for Information

This financial report is designed to provide a general overview of the System's finances, comply with related laws and regulations, and demonstrate commitment to public accountability. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Commonwealth of Puerto Rico Government Employees and Judiciary Retirement Systems Administration, Avenida Jose de Diego, Parada 22 Centro Gubernamental Minillas, Edificio Torre Norte, Piso 11, San Juan, Puerto Rico, 00940.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Fiduciary Net Position

June 30, 2017

(In thousands)

	Pension	Post employment healthcare benefits	Total
Assets:			
Cash and cash equivalents:			
Deposits at commercial banks:			
Unrestricted	$ 257,879	—	257,879
Restricted	202,295	—	202,295
Money market funds:			
Unrestricted	2,340	—	2,340
Restricted	13,279	—	13,279
U.S. Treasury bill – restricted	909	—	909
Total cash and cash equivalents	476,702	—	476,702
Receivables, net:			
Employers – net of allowance for uncollectible accounts of $1,029,739	36,172	—	36,172
Due from Retirement System for the Judiciary of the Commonwealth of Puerto Rico	627	—	627
Investments sold	401	—	401
Other	17,259	—	17,259
Total receivables, net	54,459	—	54,459
Collateral from securities lending transactions	7,359	—	7,359
Investments:			
Bonds and notes	163,187	—	163,187
Nonexchange commingled trust funds	181,699	—	181,699
Investments in limited partnerships	87,069	—	87,069
Total investments	431,955	—	431,955
Member loans and interest receivable – net	523,443	—	523,443
Capital assets – net	9,902	—	9,902
Other assets	816	—	816
Total assets	1,504,636	—	1,504,636

(Continued)

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT
OF THE COMMONWEALTH OF PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Fiduciary Net Position

June 30, 2017

(In thousands)

		Pension	Post employment healthcare benefits	Total
Liabilities:				
Accounts payable and accrued liabilities	$	279,366	—	279,366
Bond interest payable		14,076	—	14,076
Securities lending obligations		7,359	—	7,359
Due to Commonwealth of Puerto Rico		98,044	—	98,044
Escrow funds of mortgage loans and guarantee insurance reserve for member loans		11,018	—	11,018
Accrued Investment Expense		541	—	541
Bonds payable		3,166,472	—	3,166,472
Other liabilities		36,613	—	36,613
Total liabilities		3,613,489	—	3,613,489
Contingencies (note 13)		—	—	—
Unrestricted net deficit position	$	(2,108,853)	—	(2,108,853)

See accompanying notes to basic financial statements.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Changes in Fiduciary Net Position

Year ended June 30, 2017

(In thousands)

	Pension	Post employment healthcare benefits	Total
Additions:			
Contributions:			
Employer contributions:			
Basic benefits, net of provision for uncollectible contributions of $405,661	$ 726,911	—	726,911
Special benefits	194,626	91,280	285,906
Member contributions	320,095	—	320,095
Total contributions	1,241,632	91,280	1,332,912
Investment income:			
Net depreciation in fair value of investments	(7,856)	—	(7,856)
Impairment loss on deposits with governmental bank (note 6)	(9,218)	—	(9,218)
Interest	46,800	—	46,800
Dividends	253	—	253
Less investment expense, other than from securities lending	(1,854)	—	(1,854)
Net income from investing, other than from securities lending	28,125	—	28,125
Securities lending income	30	—	30
Net investment income	28,155	—	28,155
Other income	56,626	—	56,626
Total additions	1,326,413	91,280	1,417,693
Deductions:			
Benefits paid to participants:			
Annuities	1,320,005	—	1,320,005
Special benefits	194,626	91,280	285,906
Death benefits	10,064	—	10,064
Refunds of contributions	35,229	—	35,229
Interest on bonds payable	198,084	—	198,084
General and administrative	24,358	—	24,358
Other expenses	387,015	—	387,015
Total deductions	2,169,381	91,280	2,260,661
Net decrease in net position	(842,968)	—	(842,968)
Net position (deficit):			
Beginning of year	(1,265,885)	—	(1,265,885)
End of year	$ (2,108,853)	—	(2,108,853)

See accompanying notes to basic financial statements.

(1) Organization

The Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the System) is a trust created by the Legislature of the Commonwealth of Puerto Rico (the Legislature) pursuant to Act No. 447 on May 15, 1951 (Act No. 447), as amended, to provide pension and other benefits to retired employees of the Commonwealth, its public corporations and municipalities. Prior to August 23, 2017, the System administered a cost-sharing, multi-employer, pension plan (the pension plan). The System also administers post-employment healthcare benefits provided by the Commonwealth of Puerto Rico (the Commonwealth) to retired plan members (the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities Medical Insurance Plan Contribution – ERS MIPC), an unfunded, cost-sharing, multi-employer defined benefit other postemployment benefit plan.

The System is considered an integral part of the Commonwealth's financial reporting entity and is included in the Commonwealth's basic financial statements as a pension trust fund. The System, is a governmental retirement plan, and as such is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). Income earned by the System is not subject to Federal and Puerto Rico taxes.

Under Act No. 447, until August 23, 2017, the System was governed by an 11-member board of trustees (the Board of Trustees), composed of (i) four ex-officio members (or their designees): the Secretary of Treasury of the Commonwealth, the President of the Government Development Bank for Puerto Rico (GDB), the Commissioner of Municipal Affairs, and the Director of the Office of Human Resources of the Commonwealth; (ii) three members appointed to three-year terms by the Governor of the Commonwealth (the Governor), two of whom had to be members of the System and one member of the Retirement System for the Judiciary of the Commonwealth of Puerto Rico (JRS), each with at least ten years of credited service; (iii) two members who had to be pensioners of the System and JRS, respectively; (iv) the President of the Federation of Mayors; and (v) the President of the Association of Mayors. As of June 30, 2017, the System was governed by the Board of Trustees.

On August 23, 2017, Act 106-2017 dissolved the Board of Trustees and established a new Retirement Board of the Government of Puerto Rico (the Retirement Board), to govern all of the Commonwealth's Retirement Systems, including the System. The Retirement Board is comprised of 13 members, composed of (i) six ex-officio members (or their designees): the Executive Director of the Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA), the Secretary of Treasury of the Commonwealth, the Director of the Office of Management and Budget, the Director of the Office for the Administration and Transformation of Human Resources of the Government of Puerto Rico, the President of the Federation of Mayors, and the President of the Association of Mayors; (ii) three Governor-appointed representatives of the teachers of the Department of Education, the public corporations, and the Judiciary Branch; and (iii) four additional Governor-appointed members as representatives of the public interest. As of the date of these financial statements, there are two vacancies in the Retirement Board. For additional information regarding Act 106-2017, refer to note 14 of the basic financial statements

Prior to August 23, 2017, the System and the Retirement System for the Judiciary of the Commonwealth of Puerto Rico (JRS), also a component unit of the Commonwealth, were both administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration (the ERS and JRS Administration). The ERS and JRS Administration allocated 97.93% of its general and administrative expenses to the System during the fiscal year ended June 30, 2017. The methodology used to determine the allocation is based on total employers' and participating employees' contributions to the System, divided by the aggregate total of employers' and participating employees' contributions to the System and JRS, combined.

(2) Summary of Significant Accounting Policies

The following are the significant accounting policies followed by the System in the preparation of its financial statements:

(a) Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP) as applicable to governmental organizations per the Governmental Accounting Standards Board (GASB) pronouncements. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has legal requirement to provide the contributions. Benefits and refunds are recognized when legally due and payable.

(b) Use of Estimates

The preparation of the basic financial statements requires management to make significant estimates and assumptions relating to the reporting of assets and liabilities and in the disclosures of contingencies to prepare these financial statements in conformity with GAAP. The System's most significant estimates relate to the total pension liability, the allowance for uncollectible amounts of member loans and accounts receivable and the valuation of certain investments. Due to the inherent nature of these estimates, actual results could differ from those estimates.

(c) Cash and Cash Equivalents

Cash equivalents include all highly liquid debt instruments with original maturities of three months or less from the date of acquisition and consist of money market funds, U.S. Treasury bills, and certificates of deposit in GDB (a component unit of the Commonwealth) and in commercial banks. Restricted cash deposited with GDB consists of payments received from mortgage loan holders in the servicing of loans (escrow accounts), expired checks not claimed by the plan members restricted for repayments, and temporary amounts to be transferred to the Bank of New York Mellon (trustee) restricted for bond debt service requirements. Restricted money market funds consist of funds held by the trustee to maintain the debt service funds and the sinking funds for the repayment of the System's bonds payable.

(d) Investments

Investments are reported at fair value. The fair value of investments is based on quoted prices, if available. The System has investments in limited partnerships and non-exchange commingled trust funds valued at approximately $87 million and $182 million, respectively, as of June 30, 2017. Fair values of investments in limited partnerships have been estimated in the absence of readily determinable fair values, based on information provided by the underlying fund managers. Non-exchange commingled trust funds are reported at their net asset value (NAV). The NAV includes the market value of the securities in the fund plus any receivables, payables, and accrued fund expenses.

Securities purchases and sales are recorded on a trade-date basis. Realized gains and losses from the sale of securities and unrealized changes in the fair value of outstanding securities are included in net appreciation (depreciation) in fair value of investments. Realized gains and losses are computed as the difference between the proceeds of the sale and the cost of the investment sold, determined by the average cost method. Interest income is recorded as earned on an accrual basis. Dividend income is recorded on the ex-dividend date.

(e) Member Loans

Mortgage, personal, and cultural trip loans to plan members are stated at their outstanding principal balance less an allowance for uncollectible amounts. The maximum amount that was loaned to plan members for mortgage loans is $100,000 and $5,000 for personal, and cultural trip loans.

At June 30, 2017, the System serviced mortgage loans with an aggregate principal balance of approximately $161 million at June 30, 2017, related to certain mortgage loans sold to the Federal National Mortgage Association for a fee of 0.25%. The sale contract stipulates that the System must repurchase any loans with payments in arrears over 90 days.

(f) Guarantee Insurance Reserve for Member Loans

Premiums collected and benefits claimed are recorded as additions and deductions, respectively. The guarantee insurance reserve for life insurance on loans to plan members is revised each year and adjusted accordingly based on the annual higher claim amount of a five-year period increased by a management determined percentage.

(g) Capital Assets

Capital assets include building, building improvements, and furniture and equipment. The System defines capital assets as assets with an initial individual cost of $500 or more at the date of acquisition and a useful life equal to or in excess of four years. Capital assets are recorded at historical cost, or their estimated historical cost, if actual historical costs are not available. Donated capital assets are recorded at their estimated fair value at time of donation.

Capital assets are depreciated on the straight-line method over the assets estimated useful life. There is no depreciation recorded for construction in progress. The estimated useful lives of capital assets are as follows:

	Years
Building	50
Buildings improvements	10
Equipment, furniture, fixtures, and vehicles	5–10

(h) Termination Benefits

The System accounts for termination benefits in accordance with GASB Statement No. 47, *Accounting for Termination Benefits*. Pursuant to the provisions of GASB Statement No. 47, the System, as an employer, should recognize a liability and expense for voluntary termination benefits (for example, early retirement incentives) when the offer is accepted and the amount can be estimated. A liability and expense for involuntary termination benefits (for example, severance benefits) should be recognized when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees, and the amount can be estimated.

(i) Recently Issued Accounting Pronouncements

The following new accounting standards have been issued but are not yet effective during the fiscal year ending June 30, 2017:

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting).* This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans,* for OPEB. This statement establishes new accounting and financial reporting requirements for OPEB plans. The provisions of this statement are effective for fiscal years beginning after June 15, 2017. The System is evaluating the impact of this new statement.
- GASB Statement No. 82, *Pension Issues* **–** *an Amendment of GASB Statements No 67, No. 68 and No. 73*. This Statement addresses certain issues that have been raised with respect to GASB Statements No. 67, No. 68, and No. 73. The Statement is designed to improve consistency in the application of the pension standards by clarifying or amending related areas of existing guidance. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. Prior to the issuance of this Statement, GASB Statements No. 67 and No. 68 required presentation of covered-employee payroll, which is

the payroll of employees that are provided with pensions through the pension plan, and ratios that use that measure, in schedules of required supplementary information. This Statement amends GASB Statements No. 67 and No. 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure. This Statement clarifies that a deviation, as the term is used in Actuarial Standards of Practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standard of Practice is not considered to be in conformity with the requirements of GASB Statement No. 67, GASB Statement No. 68, or GASB Statement No. 73 for the selection of assumptions used in determining the total pension liability and related measures. This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of GASB Statement No. 67 and as employee contributions for purposes of GASB Statement No. 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits). The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The System already adopted the requirements of this statement except for the amendments related to the selection of assumptions mentioned above for which the System is evaluating the impact of this new requirement.

- GASB Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB). The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2017. The System is evaluating the impact of this new statement.
- GASB Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2019. The System is evaluating the impact of this new statement.

- GASB Statement No. 88, *Certain disclosures related to debt*, *including direct borrowings and direct placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2018. The System is evaluating the impact of this new statement.

(3) Going Concern Uncertainty

As of June 30, 2017, the System was severely underfunded with a net pension liability of approximately $32,201 million and a fiduciary net deficit position of approximately $2,109 million. As a result of fiscal and economic challenges, on May 3, 2017, the Financial Oversight and Management Board for Puerto Rico (the Oversight Board) – at the request of the Governor – commenced a Title III case for the Commonwealth by filing a petition for relief under Title III of the Puerto Rico Oversight Management and Economic Stability Act (PROMESA) in the United States District Court for the District of Puerto Rico (the Title III Court). By commencing a Title III case, the Commonwealth was able to ensure the delivery of essential services to the public and the payment of government payroll and essential suppliers.

On May 21, 2017, the Oversight Board – at the request of the Governor – similarly commenced a Title III case for the System by filing a petition for relief in the Title III Court. On June 15, 2017, the United States Trustee appointed an Official Committee of Retired Employees in the Commonwealth's Title III case.

As further described in note 14 to the basic financial statements, in July 2017, the System sold investments in the total aggregate amount of approximately $297 million and transferred approximately $190 million of the net proceeds to the Treasury Department as required under Joint Resolution 188.

Management's Conclusion on Going Concern Consideration

Based on the fiscal and financial difficulties of both the Commonwealth and the System discussed above, management believes there is substantial doubt about the ability of the System to continue as a going concern.

Management's Remediation Plan

On June 27, 2017, the Treasury Department issued Circular Letter No. 1300-46-17 in order to convey to the Commonwealth central government agencies, public corporations and municipalities the new implementation procedures to adopt, effective, July 1, 2017, a new PayGo system for the payment of pensions. Subsequently, on August 23, 2017, the Governor signed into law Act 106-2017, which established by law the PayGo system for the payment of accumulated pension benefits by the Commonwealth and reformed the System so that its active participants would deposit their individual contributions in a new Defined Contribution Plan, among other significant changes. For additional information on the PayGo system and Act 106-2017, refer to note 14 to the basic financial statements.

Act 106-2017 also suspended the System's loan program and seeks to reduce general and administrative expenses mostly through employee attrition due to normal retirement and reduction in professional services contracts.

(4) Plan Description

Pension Benefits

Before August 23, 2017, the System administered different benefit structures pursuant to Act No. 447, as amended, including a cost-sharing, multi-employer, defined benefit program, a defined contribution program (System 2000 program) and a contributory hybrid program. Benefit provisions vary depending on member's date of hire. Substantially all full-time employees of the Commonwealth and its instrumentalities (73 Commonwealth agencies, 78 municipalities, and 55 public corporations, including the System) are covered by the System. Membership is mandatory for all regular, appointed, and temporary employees of the Commonwealth at the date of employment. Membership is optional for the Governor of the Commonwealth, Commonwealth secretaries, head of public agencies and instrumentalities, among others.

At July 1, 2016, membership of the System consisted of the following:

Retirees and beneficiaries currently receiving benefits	108,035
Current participating employees – defined benefit	53,832
Current participating employees – System 2000 and Act No. 3	64,825
Disabled members, receiving benefits	14,722
Total membership	241,414

The benefits provided to members of the System are established by Commonwealth law and may be amended only by the Legislature with the Governor's approval. Act No. 3, in conjunction with other recent funding and design changes, provided for a comprehensive reform of the System. This summary details the provisions under Act No. 3.

Certain provisions are different for the three groups of members who entered the System prior to July 1, 2013 as described below:

- Members of Act No. 447 are generally those members hired before April 1, 1990. (contributory, defined benefit program)
- Members of Act No. 1 are generally those members hired on or after April 1, 1990 and on or before December 31, 1999. (contributory, defined benefit program)
- Members of Act No. 305 (or System 2000) are generally those members hired on or after January 1, 2000 and on or before June 30, 2013. (defined contribution program)

All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the defined benefit program and the System 2000 program, and were rehired on or after July 1, 2013, become members of the Contributory Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous programs became part of the Contributory Hybrid Program on July 1, 2013.

Each member has a non-forfeitable right to the value of their account. Members have three options to invest their contributions. Investment income is credited to the member's account semi-annually. The Commonwealth does not guarantee benefits at retirement age.

The assets of the defined benefit program, the defined contribution program and the Contributory Hybrid Program were pooled and invested by the System.

This summary of the System's pension plan provisions is intended to describe the essential features of the plan before the enactment of Act 106-2017. All eligibility requirements and benefit amounts shall be determined in strict accordance with the applicable plan documents.

(a) Service Retirements

(1) *Eligibility for Act No. 447 Members* **–** Act No. 447 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 447 members could retire upon (1) attainment of age 55 with 25 years of credited service, (2) attainment of age 58 with 10 years of credited service, (3) any age with 30 years of credited service, (4) for Public Officers in High Risk Positions (the Commonwealth Police and Firefighter Corps, the Municipal Police and Firefighter Corps and the Custody Office Corps), attainment of age 50 with 25 years of credited service, and (5), for Mayors of municipalities, attainment of age 50 with 8 years of credited service as a Mayor. In addition, Act No. 447 members who attained 30 years of credited service by December 31, 2013 are eligible to retire at any time.

Act No. 447 members who were not eligible to retire as of June 30, 2013 and did not attain 30 years of credited service by December 31, 2013 are eligible to retire upon attainment of the retirement eligibility age shown in the table below with 10 years of credited service.

Date of birth	Attained age as of June 30, 2013	Retirement eligibility age
July 1, 1957 or later	55 or less	61
July 1, 1956 to June 30, 1957	56	60
Before July 1, 1956	57 and up	59

In addition to the requirements in the table above, Act No. 447 provides that Public Officers in High Risk Positions who were not eligible to retire as of June 30, 2013 and did not attain 30 years of credited service by December 31, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

(2) *Eligibility for Act No. 1 Members* **–** Act No. 1 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 1 members could retire upon (1) attainment of age 55 with 25 years of credited service, (2) attainment of age 65 with 10 years of credited service, (3) for Public Officers in High Risk Positions, any age with 30 years of credited service, and (4) for Mayors, attainment of age 50 with 8 years of credited service as a Mayor.

Act No. 1 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 65 with 10 years of credited service. In addition, Act No. 1 Public Officers in High Risk Positions who were not eligible to retire as of June 30, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

(3) *Eligibility for System 2000 Members* **–** System 2000 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, System 2000 members could retire upon attainment of age 55 for Public Officers in High Risk Positions and attainment of age 60 otherwise.

System 2000 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 55 for Public Officers in High Risk Positions and upon attainment of the retirement eligibility age shown in the table below otherwise.

Date of birth	Attained age as of June 30, 2013	Retirement eligibility age
July 1, 1957 or later	55 or less	65
July 1, 1956 to June 30, 1957	56	64
July 1, 1955 to June 30, 1956	57	63
July 1, 1954 to June 30, 1955	58	62
Before July 1, 1954	59 and up	61

(4) *Eligibility for Members Hired after June 30, 2013* – Attainment of age 58 if a Public Officer in a High Risk Position and attainment of age 67 otherwise.

(b) Service Retirement Annuity Benefits

An annuity is payable for the lifetime of the member equal to the annuitized value of the balance in the Defined Contribution Hybrid Contribution Account at the time of retirement, plus, for Act No. 447 and Act No. 1 members, the accrued benefit determined as of June 30, 2013. If the balance in the Defined Contribution Hybrid Contribution Account is $10,000 or less, it shall be paid as a lump sum instead of as an annuity. For System 2000 participants this service retirement annuity benefit is not available.

(1) *Accrued Benefit as of June 30, 2013 for Act No. 447 Members* – The accrued benefit as of June 30, 2013 shall be determined based on the average compensation, as defined, for Act No. 447 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Act No. 447 Mayors, the highest compensation, as defined, as a Mayor is determined as of June 30, 2013.

If the Act No. 447 member had at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting to coordinate with social security (the Coordination Plan), the benefit is re-calculated at the Social Security Retirement Age (SSRA), as defined, as 1.5% of average compensation up to $6,600 multiplied by years of credited service, up to 30 years, plus 65% (75% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600.

If the Act No. 447 member had less than 30 years of credited service as of June 30, 2013, and attains 30 years of credited service by December 31, 2013, the accrued benefit equals 55% of average compensation if the member was under age 55 as of June 30, 2013 or 60% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit is re-calculated at SSRA as 1.5% of average compensation up to $6,600 multiplied by years of credited service, up to 30 years, plus 55% (60% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600. Member contributions received from Act No. 447 members eligible for this transitory benefit during the period beginning July 1, 2013 and ending upon the attainment of 30 years of credited service are considered pre-July 1, 2013 contributions; the contributions to the Defined Contribution Hybrid Contribution Account begin after the member attains 30 years of credited service.

If the Act No. 447 member had less than 30 years of credited service as of December 31, 2013, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service up to 20 years, plus 2% of average compensation multiplied by years of credited service in excess of 20 years. Maximum benefit is 75% of average compensation. Except for Commonwealth Police and Commonwealth Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58. For participants selecting the Coordination Plan, the basic benefit is re-calculated at SSRA as 1% of average compensation up to $6,600 multiplied by years of credited service up to 20 years, plus 1.5% of average compensation up to $6,600 multiplied by years of credited service in excess of 20 years, plus 1.5% of average compensation in excess of $6,600 multiplied by years of credited service up to 20 years, plus 2.0% of average compensation in excess of $6,600 multiplied by years of credited service in excess of 20 years. Except for Police and Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58.

For Act No. 447 Mayors with at least 8 years of credited service as a mayor, the accrued benefit will not be less than 5% of highest compensation, as defined, as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

(2) *Accrued Benefit as of June 30, 2013 for Act No. 1 Members* **–** The accrued benefit as of June 30, 2013 shall be determined based on the average compensation for Act No. 1 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Act No. 1 Mayors, the highest compensation as a Mayor is determined as of June 30, 2013.

If the Act No. 1 member is a police officer or firefighter with at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013.

For all other Act No. 1 members, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service. The benefit is actuarially reduced for each year payment commences prior to age 65.

For Act No. 1 Mayors with at least 8 years of credited service as a mayor, the accrued benefit will not be less than 5% of highest compensation as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

(c) Compulsory Retirement

All Act No. 447 and Act No. 1 Public Officers in High Risk Positions must retire upon attainment of age 58 and 30 years of credited service. A two year extension may be requested by the member from the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps, or supervising authority as applicable.

(d) Termination Benefits

(1) Lump Sum Withdrawal

Eligibility: A Member is eligible upon termination of service prior to 5 years of service or if the balance in the Defined Contribution Hybrid Contribution Account is $10,000 or less.

Benefit: The benefit equals a lump sum payment of the balance in the Defined Contribution Hybrid Contribution Account as of the date of the permanent separation of service.

(2) Deferred Retirement

Eligibility: A Member is eligible upon termination of service with 5 or more years of service (10 years of credited service for Act No. 447 and Act No. 1 members) prior to the applicable retirement eligibility, provided the member has not taken a lump sum withdrawal of the accumulated contributions and the Defined Contribution Hybrid Contribution Account.

Benefit: An annuity payable for the lifetime of the member commencing at the applicable retirement eligibility age is equal to the annuitized value of the balance in the Defined Contribution Hybrid Contribution Account at the time of retirement, plus, for Act No. 447 and Act No. 1 members, the accrued benefit determined as of June 30, 2013.

(e) Death Benefits

(1) Pre-Retirement Death Benefit

Eligibility: Any current nonretired member is eligible.

Benefit: A refund of the Defined Contribution Hybrid Contribution Account, plus the accumulated contributions for Act No. 447 and Act No. 1 members.

(2) High-Risk Death Benefit under Act No. 127 of 1958, as amended (Act No. 127)

Eligibility: Police, firefighters, and other employees in specified high-risk positions who die in the line of work due to reasons specified in Act No. 127.

Spouse's Benefit: 50% of the participant's compensation at date of death, payable as an annuity until death or remarriage.

Children's Benefit: 50% of the participant's compensation at date of death, payable as an annuity, and allocated pro-rata among eligible children. The annuity is payable for life for a disabled child, until age 18 for a nondisabled child not pursuing studies, and until age 25 for a nondisabled child who is pursuing studies.

Benefit if No Spouse or Children: The parents of the member shall each receive 50% of the participant's compensation at date of death, payable as an annuity for life.

Post-death Increases: Effective July 1, 1996 and subsequently every three years, the above death benefits are increased by 3% provided that the beneficiary(ies) had been receiving payments for at least three years.

The cost of these benefits is paid by the Commonwealth's General Fund.

(3) Post-Retirement Death Benefit for Members who Retired prior to July 1, 2013

Eligibility: Any retiree or disabled member receiving a monthly benefit who has not elected a reversionary annuity and whose benefits commenced prior to July 1, 2013.

Benefit: The benefit is as follows (Law No. 105 of 1969, as amended by Law No. 158 of 2003 and Article 2-113 of Act 447 of 1951 as amended by Act 524 of 2004):

(i) For those married or with dependent children at the time of death, the annual income to a widow, or widower or dependent children is equal to 60% (50% if in the Coordination Plan – 30% prior to January 1, 2004) of the retirement benefit payable for life for a surviving spouse and/or disabled children and payable until age 18 (age 25 if pursuing studies) for nondisabled children. If in the Coordination Plan, the benefit to the surviving spouse does not begin until the spouse's attainment of age 60 and the surviving spouse must have been married to the member for at least 10 years to be eligible for this benefit. The increase in the percentage from

30% to 50% if the Coordination Plan is paid by the Commonwealth's General Fund for former government employees or by a public corporation or municipality for their former employees. As stated in Law 105 of 1969 as amended by Act 158 of 2003.

(ii) The benefit, when there is no relation as stated above, is equal to the remaining balance of accumulated contributions at the time of retirement after the deduction of lifetime annual income paid and is payable to a beneficiary or to the member's estate. In no case shall the benefit be less than $1,000. Either the Commonwealth's General Fund for former government employees or the public enterprise or municipality for their former employees pays the difference, up to $250, between (1) the accumulated contributions less the lifetime annual income paid and (2) $1,000. The System pays for the rest. As stated in Article 2-113 of Act 447 of 1951 as amended by Act 524 of 2004.

(4) Post-Retirement Death Benefit for Members who Retired after June 30, 2013

Eligibility: Any retiree or disabled member who began receiving a monthly benefit after June 30, 2013.

Benefit: If the member elected at the time of retirement to transfer a portion of the annuity to a beneficiary by selecting an actuarially equivalent optional form of payment, the benefit is the applicable survivor benefit selected.

For all members, the excess, if any, of the Defined Contribution Hybrid Contribution Account, plus the accumulated contributions for Act No. 447 and Act No. 1 members, at the time of retirement over the total annuity payments paid to the member and any beneficiary per the terms of the optional form of payment shall be payable to a beneficiary or the member's estate.

(5) Beneficiaries receiving occupational death benefits as of June 30, 2013 continue to be eligible to receive such benefits.

(f) Disability Benefits

(1) Disability

Eligibility: All members are eligible upon the occurrence of disability.

Benefit: The balance of the Defined Contribution Hybrid Contribution Account payable as lump sum distribution, an immediate annuity or a deferred annuity at the election of the participant. Act No. 447 and Act No. 1 members remain eligible to receive the accrued benefit as of June 30, 2013 commencing at the applicable retirement eligibility age.

(2) High Risk Disability under Act No. 127

Eligibility: Police, firefighters, and other employees in specified high-risk positions who are disabled in the line of work due to reasons specified in Act No. 127 of 1958 (as amended).

Benefit: 80% (100% for Act No. 447 members) of compensation as of date of disability, payable as an annuity. If the member dies while still disabled, this annuity benefit continues to his beneficiaries. Beneficiaries include the surviving spouse and/or disabled children (for life), nondisabled children until age 18 (age 25 if pursuing studies), and the parents if no other beneficiaries. Effective July 1, 1996 and subsequently every three years, the disability benefit is increased by 3% provided that the member (or beneficiary) had been receiving payments for at least three years (Act No. 127 of 1958, as amended). The cost of these benefits is paid by the Commonwealth's General Fund.

(3) Members who qualified for occupational or nonoccupational disability benefits as of June 30, 2013 continue to be eligible to receive such benefits.

(g) Special Benefits

(1) Minimum Benefits

(i) Past Ad hoc Increases

The Legislature, from time to time, increases pensions for certain retirees as described in Act No. 124 approved on June 8, 1973 and Act No. 23 approved on September 23, 1983. The benefits are paid 50% by the Commonwealth's General Fund and 50% by the System.

(ii) Minimum Benefit for Members who Retired before July 1, 2013 (Act No. 156 of 2003, Act No. 35 of 2007, and Act No. 3 of 2013)

The minimum monthly lifetime income for members who retired or become disabled before July 1, 2013 is $500 per month effective July 1, 2013 ($400 per month effective July 1, 2007 and $300 per month up to June 30, 2007). The increase in the minimum monthly benefit from $200 per month to $300 per month is paid by the Commonwealth's General Fund for former government and certain public corporations without their own treasuries employees or by certain public corporations with their own treasuries or municipalities for their former employees. The increase in the minimum monthly benefit from $300 per month to $400 per month is to be paid by the System for former government and certain public corporations without their own treasuries employees or by certain public corporations with their own treasuries or municipalities for their former employees.

(iii) Coordination Plan Minimum Benefit

A minimum monthly benefit is payable upon attainment of SSRA such that the benefit, when added to the Social Security Benefit, is not less than the benefit payable prior to SSRA.

(2) Cost-of-Living Adjustments (COLA) to Pension Benefits

The Legislature, from time to time, increased pensions by 3% for retired and disabled members. Beneficiaries are not entitled to COLAs granted after the retiree's death. The first increase was granted by Act No. 10 of 1992. Subsequent 3% increases have been granted every third year since 1992, with the latest 3% increase established on April 24, 2007 and effective July 1, 2007 (retroactive to January 1, 2007) for retired and disabled members that were receiving a monthly benefit on or before January 1, 2004 (Act 35 of 2007). In addition, effective July 1, 2008, any retired or disabled member that was receiving a monthly annuity on or before January 1, 2004 less than $1,250 per month received an increase of up to 3% without exceeding the limit of $1,250 per month (Act 35 of 2007). The COLAs granted in 1992 to all retirees and in 1998 to retirees who are former government or municipal employees shall be paid by the System. All other COLAs granted in 1995 and later shall be paid by the Commonwealth's General Fund for former government and certain public corporations without their own treasuries employees or by certain public corporations with their own treasuries or municipalities for their former employees.

(3) Special "Bonus" Benefits

(i) Christmas Bonus (Act No. 144, as Amended by Act No. 3)

An annual bonus of $200 for each retiree, beneficiary, and disabled member paid in December provided the member retired prior to July 1, 2013. This benefit is paid from the supplemental contributions received from the Commonwealth's General Fund for former government and certain public corporations without their own treasuries employees or by certain public corporations with their own treasuries or municipalities for their former employees.

(ii) Medication Bonus (Act No. 155, as Amended by Act No. 3)

An annual bonus of $100 for each retiree, beneficiary, and disabled member to cover health costs paid in July provided the member retired prior to July 1, 2013. Evidence of coverage is not required. The amount is prorated if there are multiple beneficiaries. This benefit is paid from the supplemental contributions received from the Commonwealth's General Fund for former government and certain public corporations without their own treasuries' employees or by certain public corporations with their own treasuries or municipalities for their former employees.

(h) Contributions

(1) Member Contributions (Article 5-105 of Law 447, as amended by Law No. 3 of 2013, amended by Law No. 106 of 2017 and amended by Law 71 of 2019)

Effective July 1, 2013 through June 30, 2017, contributions by members consisted of 10% of compensation. However, for Act No. 447 members who selected the Coordination Plan, the member contributions were 7% of compensation up to $6,600 plus 10% of compensation in excess of $6,600 during the 2013-2014 fiscal year and 8.5% of compensation up to $6,600 plus 10% of compensation in excess of $6,600 during the 2014-2015 fiscal year. Effective July 1, 2015 members who selected the Coordination Plan, member contribution increased to 10% of compensation. Members may voluntarily make additional contributions to their Defined Contribution Hybrid Contribution Account.

Prior to July 1, 2013, contributions by Act No. 447 members selecting the Coordination Plan were 5.775% of compensation up to $6,600 plus 8.275% of compensation in excess of $6,600. Contributions by all other members were 8.275% of compensation. System 2000 members may also have made voluntary contributions of up to 1.725% of compensation prior to July 1, 2013.

Effective July 1, 2017, contributions by members consists of 8.5% of compensation. However, in the case of members of the rank system of the Puerto Rico Police Bureau, the mandatory contribution is 2.3% of their compensation. In the case of those members of the rank system of the Puerto Rico Police Bureau which have less than 10 years to qualify for retirement as established by Act No. 447, the reduction in the percentage of contribution will apply voluntarily.

(2) Employer Contributions (Article 2-116 of Law 447, as Amended by Law No. 116 of 2011 and Act No. 3 of 2013, eliminated effective on July 1, 2017 by Act 106 of 2017)

Prior to July 1, 2011, employer contributions were 9.275% of compensation. Effective July 1, 2011, employer contributions were 10.275% of compensation. For the next four fiscal years effective July 1, employer contributions were scheduled to increase annually by 1% of compensation. For the five fiscal years thereafter, employer contributions will increase annually by 1.25% of compensation. Act 106 of 2017 eliminated the employer contributions to the System as of July 1, 2017.

(3) Supplemental Contributions from the Commonwealth's General Fund, Certain Public Corporations, and Municipalities (Act No. 3 of 2013, eliminated on July 1, 2017 by Act 106 of 2017)

Effective July 1, 2013, the System will receive a supplemental contribution of $2,000 each fiscal year for each pensioner (including beneficiaries receiving survivor benefits) who was previously benefitting as an Act No. 447 or Act No. 1 member while an active employee. This supplemental contribution will be paid by the Commonwealth's General Fund for former government and certain public corporations without their own treasuries employees or by certain public corporations with their own treasuries or municipalities for their former employees.

The special benefits contribution requirement to the System is established by law and is not actuarially determined. The special benefits contributions of approximately $195 million in 2017 mainly represent contributions from the Commonwealth's General Fund, public corporations and municipalities for the special benefits identified above granted by special laws. The funding of the special benefits is provided to the System through legislative appropriations each July 1 by the Commonwealth's General Fund for former government and certain public corporations without their own treasuries employees, and by certain public corporations with their own treasuries and municipalities for their former employees. The legislative appropriations are considered estimates of the payments to be made by the System for the special benefits. Deficiencies in legislative appropriations are covered by the System's own funds until recovered through future legislative appropriations. Any surplus of legislative appropriations collected over special benefits paid is combined with the assets held in trust for the payment of other pension benefits. During fiscal year June 30, 2017, the System transferred to the Commonwealth's General Fund the amount of $56.7 million on a monthly basis to cover any deficiency in the payment of special benefits and pensions.

(4) Additional Uniform Contribution (Act No. 32, as Amended)

The Additional Uniform Contribution will be certified by the external actuary of the System each fiscal year from 2015-2016 as necessary to avoid having the projected gross assets of the System, during any subsequent fiscal year, to fall below $1 billion. The Additional Uniform Contribution is to be paid by the Commonwealth's General Fund, public corporations with their own treasuries, and municipalities. Total Additional Uniform Contribution determined for fiscal year ended June 30, 2017 was $776 million. As further described in note 14(b), the Additional Uniform Contribution was eliminated by Act 106-2017.

(i) Early Retirement Programs

The Puerto Rico Environmental Quality Board (EQB) implemented an early retirement program for its employees under the Law 244, dated August 9, 2008. EQB has already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the System in four installments on each July 31 starting in 2009 through 2012. The EQB was at default on the retirement plan payment, so they requested a new payment plan. The System's Board of Trustees approved a payment plan for the debt balance due of the retirement program for 24 months starting in March 2014.

On July 2, 2010, the Commonwealth enacted Act No. 70 establishing a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined. Act No. 70 of 2010 (Act No. 70) also established that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of creditable services and will consist of monthly benefits ranging from 37.5% to 50% of each employees' monthly salary. Benefits under this program will be paid by the Commonwealth's the General Fund and by the public corporations, covering their respective employees until the plan member reaches the later of age 55 for members under Act No. 447 or age 65 for members under Act No. 1, or the date the plan member would have completed 30 years of service had the member continued employment. In addition, the public corporations will also be required to continue making the required employee and employer contributions to the System. The Commonwealth's General Fund will be required to continue making its required employer contributions. The System will be responsible for benefit payments afterwards. As of June 30, 2017, the System recorded a liability of approximately $15 million for its responsibility as an employer under Act No. 70.

On December 8, 2015, the Commonwealth enacted the Voluntary Early Retirement Law, Act No. 211 of 2015 (Act No. 211), establishing a voluntary program to provide pre-retirement benefits to eligible employees, as defined. Act No. 211 applies to eligible employees of agencies and component units whose budgets are funded in whole or in part by the Commonwealth's General Fund, municipalities, component units that operate with their own resources (except those that have their own retirement system), Judiciary Branch, except judges, and the Commonwealth Employees Association. Act No. 211, among other provisions, established that pre-retirement benefits would be provided to eligible employees who started contributing to the System before April 1, 1990 with at least 20 years of service and would consist of biweekly benefits of 60% of the of each employee's salary as of December 31, 2015, as defined. Pursuant to Act No. 211, the employers will continue making the applicable employee and employer contributions to the Retirement Systems and the employer Social Security and Medicare contributions based on average employee salary, as defined, as of December 31, 2015. Individual Social Security and Medicare contribution would be deducted from the biweekly benefits to be paid to the participant. These payments would be made until the employee reaches the age of 61 years. Other benefits would include the payment of the participant's healthcare plan during the first two years of the program. Once the participant reaches 61 years of age, the participant would be eligible to receive payments from the System and would be entitled to a guaranteed minimum pension of 50% of their average salary (except police officers, which would be paid 60%), and related costs would be paid by the employer.

As described in note 14, Act 106-2017 repealed Act No. 211, while creating an incentives, opportunities and retraining program for public workers.

(j) Other Postemployment Benefits (OPEB) – Healthcare Benefits

ERS MIPC is an unfunded cost-sharing, multi-employer defined benefit other postemployment benefit plan sponsored by the Commonwealth. ERS MIPC covers a payment of up to $100 per month to the eligible medical insurance plan selected by the member provided the member retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3). Substantially all full time employees of the Commonwealth's central government, certain municipalities of Puerto Rico and certain component units of the Commonwealth not having their own postemployment benefit plan, were covered by the OPEB.

Commonwealth employees became members upon their date of employment. Plan members were eligible for benefits upon reaching the pension benefits retirement ages.

At July 1, 2016, the membership consisted of the following:

Membership:	
Retired members	94,071
Disabled members	14,722
Total membership	108,793

The contribution requirement of ERS MIPC is established by Act No. 95 approved on June 29, 1963. This OPEB plan is financed by the Commonwealth. There is no contribution requirement from the plan member during active employment. Retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution. As a result, these OPEB are 100% unfunded. During the year ended June 30, 2017, OPEB contributions amounted to $91 million.

The funding of the OPEB benefits is provided to the System through legislative appropriations each July 1 by the Commonwealth's General Fund for former government and certain public corporations without their own treasuries employees, and by certain public corporations with their own treasuries and municipalities for their former employees. The legislative appropriations are considered estimates of the payments to be made by the System for the healthcare benefits throughout the year.

(5) Net Pension Liability

The components of the net pension liability as of June 30, 2017 were as follows (dollars in thousands):

Total pension liability	$	30,091,826
Plan's fiduciary net deficit		(2,108,853)
Net pension liability	$	32,200,679
Plan's fiduciary net deficit as a percentage of the total pension liability		(7.01)%

(a) Actuarial Methods and Assumptions

The census data collection date is at the beginning-of-the fiscal year. The liability results as of June 30, 2017 are based on projecting the System obligations determined as of the census data collection date of July 1, 2016 for one year, using roll-forward methods and assuming no liability gains or losses.

The actuarial valuation used the following actuarial assumptions:

Inflation	Not applicable
Municipal bond index	3.58%%, as per Bond Buyer General Obligation 20-Bond Municipal Bond Index
Projected salary increases	3.00% per year. No compensation increases are assumed until July 1, 2021 as a result of Act No. 3-2017 and the current general economy.
Mortality	Pre-retirement Mortality: For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2017 from the 2006 base year, and projected forward using MP-2017 on generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2017 from the 2006 base year, and projected forward using MP-2017 on generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127.

Post-retirement Healthy Mortality:
Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2017 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Post-retirement Disabled Mortality:
Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2017 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Most other demographic assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience 2009 study using data as of June 30, 2003, June 30, 2005 and June 30, 2007.

(b) Long-Term Expected Rate of Return

The long-term expected rate of return on pension benefits investments was not applicable as of June 30, 2017. Net assets are negative as of June 30, 2017 and accordingly, it is not possible to determine a rate of return on net assets during the fiscal year. In addition, after June 30, 2017, due to the PayGo system by which the Commonwealth guarantees payment of pensions. System assets were no longer necessary to generate investment returns to pay pension benefits. The approximate actual rate of return on gross assets was 8.74% as of June 30, 2017.

Before June 30, 2017, the pension plan's policy for allocation of invested assets has been established and may be amended by the System's Board of Trustees. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a positive impact on the System's financial condition for the benefits provided through the pension programs. The following asset allocation policy as of June 30, 2017 was adopted by the System's Board of Trustees:

	Target allocation	Long-term expected rate of return
Asset class:		
Domestic equity	56 %	N/A
International equity	15	N/A
Fixed income	28	N/A
Cash	1	N/A
Total	100 %	

In prior years, the long-term expected rate of return on pension benefits investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. This year, the long-term expected rate of return assumption is no longer applicable.

(c) Discount Rate

The asset basis for the date of depletion projection is the System's fiduciary net position (the gross assets plus deferred outflows of resources less the gross liabilities, including the senior pension funding bonds payable, plus deferred inflows of resources). On this basis, the System's fiduciary net position was exhausted in the fiscal year 2015.

The System's fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the tax free municipal bond index (Bond Buyer General Obligation 20-Bond Municipal Bond Index) was applied to all periods of projected benefits payments to determine the total pension liability. The discount rate was 3.58% as of June 30, 2017.

The June 30, 2017, actuarial valuation reflects a decrease of $5,498 million in the net pension liability, mainly related to changes in assumptions of $4,179 million, as a result of an increase in the discount rate as required by GASB Statement No. 67 from 2.85% in fiscal year 2016 to 3.58% in fiscal year 2017, and the effect of plan changes of approximately $2,017 million.

(d) Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability calculated using the discount rate of 3.58%, as well as what it would be if it were calculated using a discount rate of 1%-point lower (2.58%) or 1% point higher (4.58%) than the current rate (dollars in thousands):

		1% Decrease (2.58%)	Current discount rate (3.58%)	1% Increase (4.58%)
Net pension liability	$	36,599,444	32,200,679	28,666,953

(6) Cash and Cash Equivalents, Investments and Securities Lending Transactions

Cash and Cash Equivalents

Cash and cash equivalents as of June 30, 2017 consisted of the following (in thousands):

		Carrying amount	Depository bank balance	Amount uninsured and uncollateralized
Deposits with GDB	$	—	30,027	30,027
Deposits with Puerto Rico commercial banks		460,174	454,587	—
Money market funds		15,619	N/A	N/A
U.S. Treasury bills		909	N/A	N/A
Total	$	476,702	484,614	30,027

Custodial credit risk for deposits is the risk that, in an event of the failure of a depository financial institution, the System may not be able to recover deposits or collateral securities that are in the possession of an outside party. The Commonwealth requires that public funds deposited in Puerto Rico commercial banks be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by banks in the Commonwealth's name. Deposits with GDB and with non-Puerto Rico commercial banks and money market funds are uninsured and uncollateralized, as these entities are exempt from compliance with the collateralization requirement.

Restricted cash and cash equivalent amounted to approximately $216 million as of June 30, 2017 and consisted of the following:

- Approximately $1.9 million of funds are restricted for the debt service of the bonds payable, and 100% of such funds were deposited at trustee in money market funds

- Approximately $214 million of funds are restricted for repayments of mortgage and personal loans administrated by the mortgage servicers and the System, for expired checks not claimed by the plan members, and other purposes, of which approximately $11 million of funds were deposited at trustee in money market accounts, approximately $126,000 of funds were deposited at GDB and approximately $202 million were deposited at Puerto Rico commercial banks.

Custodial Credit Loss on Deposits with GDB

Management determined based on the information available prior to the issuance of the System's financial statements for the fiscal year ended June 30, 2017 that a custodial credit loss existed as of June 30, 2017 for the deposits held at GDB.

GDB continues to face a critical economic situation as of June 30, 2017 and currently does not have sufficient liquid financial resources to meet obligations when they come due. The Commonwealth and its public entities have not been able to repay their loans from GDB, which has significantly affected GDB's liquidity and ability to repay its obligations. Because of the nonpayment by the Commonwealth of the appropriation to GDB and GDB's inability to restructure its debt considering the broader fiscal crisis faced by the Commonwealth, GDB is in default of its debt obligations since May 1, 2016.

Pursuant to enacted legislation in April 2016, the Governor of the Commonwealth imposed on GDB emergency operational restrictions and debt moratorium. These restrictions included the suspension of loan disbursements from GDB, imposed restrictions on the withdrawal and transfer of deposits from GDB, and imposed a moratorium on debt obligation of GDB, among other measures.

On April 28, 2017, the Oversight Board approved the liquidation proposal included in the GDB's fiscal plan that calls for an orderly winding down its operations over ten years.

On March 23, 2018, GDB ceased its operations and determined to wind down in an orderly fashion under Title VI of PROMESA.

Based on an evaluation of the availability and recoverability of such funds, a custodial credit loss on these deposits has been recorded on the System's financial statements as follows (expressed in thousands):

		Deposits held with GDB at June 30, 2017		
		Carrying value before impairment loss	Custodial credit loss	Carrying value
Type of deposit:				
Interest bearing accounts	$	30,027	30,027	—
Total	$	30,027	30,027	—

The realizable balance of the deposits held with the GDB as of June 30, 2017 was determined based on the corresponding actual collections received from the GDB on such deposits after the June 30, 2017 year end.

Investments

For the year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expenses, was 8.74%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Fair Value Measurement

The System categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the inputs used in valuation and gives the highest priority to unadjusted quoted prices in active markets and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the hierarchy is based on whether the significant inputs into the valuations are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest level, Level 1, is given to unadjusted quoted prices in active markets and the lowest level, Level 3, to unobservable inputs.

Level 1 **–** Inputs whose values are based on unadjusted quoted prices for identical instruments in active markets that the System has the ability to access.

Level 2 **–** Inputs whose values are based on quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The System's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each investment. Investments measured at Net Asset Value (NAV) as practical expedient are not subject to level classification.

The table below shows the fair value leveling of the System's investments:

Investment type	Level 1	Level 2	Level 3	Total
Investments measured at fair value:				
U.S. government securities	$ 8,884	—	—	8,884
U.S. government sponsored agencies obligations	9,789	—	—	9,789
Mortgage and asset-backed securities	6,540	—	—	6,540
U.S. corporate bonds and notes	—	64,939	—	64,939
Non U.S. corporate bonds	—	14,811	—	14,811
COFINA bonds	—	58,224	—	58,224
Investments at fair value level	$ 25,213	137,974	—	163,187
Investments measured at NAV as a practical expedient:				
Non exchange commingled trust funds:				
U.S. Equity trust funds				120,498
Non U.S. Equity trust funds				61,201
Investments in limited partnerships				87,069
Total Investments				$ 431,955

The System's investments are exposed to custodial credit risk, credit risk, concentration of credit risk, foreign currency risk, and interest rate risk. Following is a description of these risks as of June 30, 2017:

(a) Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the System may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. At June 30, 2017, securities investments were registered in the name of the System and were held in the possession of the System's custodian banks, except for securities lent. Securities lent are not exposed to custodial credit risk. Cash collateral received from securities lending transactions invested in short-term investments is exposed to custodial credit risk.

(b) Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. All fixed-income securities at the time of purchase must be of investment grade quality. All issuances shall be rated investment grade by at least two of the nationally recognized rating agencies. The portfolio is expected to maintain a minimum weighted average credit quality of either "A–" or better using either Moody's or Standard & Poor's credit ratings.

The credit quality ratings of bonds and notes and nonexchange commingled fixed income trust fund as of June 30, 2017, are as follows (in thousands):

	Rating (1)								
Investment type	**AAA**	**AA+ to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to BB-**	**B+ to B-**	**CCC-**	**Not rated**	**Total**
Bonds and notes:									
U.S. government sponsored agencies obligations:									
Federal Home Loan Bank (FHLB)	$ —	2,937	—	—	—	—	—	—	2,937
Federal National Mortgage Association (FNMA)	—	4,249	—	—	—	—	—	—	4,249
Federal Home Loan Mortgage Corporation (FHLMC)	—	927	—	—	—	—	—	—	927
Federal Farm Credit Banks (FFCB)	—	1,676	—	—	—	—	—	—	1,676
Mortgage and asset-backed securities:									
FNMA	—	2,581	—	—	—	—	—	—	2,581
FHLMC	—	1,420	—	—	—	—	—	—	1,420
U.S. corporate bonds and notes	2,065	10,832	13,245	34,770	473	—	—	3,554	64,939
Non U.S. corporate bonds	—	502	4,094	6,444	857	—	—	2,914	14,811
COFINA bonds	—	—	—	—	—	—	58,224	—	58,224
Total	$ 2,065	25,124	17,339	41,214	1,330	—	58,224	6,468	151,764

(1) Rating obtained from Standard and Poor's or equivalent rating by Moody's Investor Service or Fitch Ratings.

Approximately $11.4 million of the total System investments consist of U.S. government and Government National Mortgage Association (GNMA) mortgage-backed securities, which carry no risk, therefore, not included within the above table.

(c) Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the System's investment in a single issuer. As of June 30, 2017, there are no investments in any issuer that represent 5% or more of the System's total investments, except for its investment in COFINA Bonds.

Pursuant to Act No. 96 of June 16th, 2011, during the fiscal year ended June 30, 2011, the System received a special contribution of approximately $163 million from the Puerto Rico Infrastructure Financing Authority, an instrumentality of the Commonwealth. The contribution was invested in bonds issued by the Puerto Rico Sales Tax Financing Corporation (known as COFINA by its Spanish acronym), which provide for a 7% accretion rate and maturity dates between 2043 and 2048. COFINA is a blended component unit of the Commonwealth. As required by Act No. 96 of June 16th, 2011, the System cannot voluntary dispose the COFINA Bonds unless such request has been approved by the GDB. The COFINA Bonds have a fair value of approximately $58.2 million as of June 30, 2017.

(d) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the System manages its exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for benefit payments, thereby avoiding the need to sell securities on the open market prior to maturity. Investments in equity securities are not subject to the maximum maturity policy since they do not carry a maturity date. The System is expected to achieve capital preservation and income generation by investing in a diversified portfolio of marketable, investment grade intermediate credit and core fixed-income securities.

The contractual maturity of investments as of June 30, 2017, is summarized below (in thousands). Expected maturities will differ from contractual maturities, because counterparties may have the right to call or prepay obligations with or without call or prepayment penalties.

	Maturity (in years)				
Investment type	Within one year	After one to five years	After five to ten years	After ten years	Total
Bonds and notes:					
U.S. government securities:					
U.S. Treasury notes	$ 2,105	824	3,602	—	6,531
U.S. Treasury bonds	—	—	—	2,353	2,353
U.S. government sponsored agencies obligations:					
FHLBC	—	1,053	1,884	—	2,937
FNMA	—	—	4,249	—	4,249
FHLMC	—	927	—	—	927
FFCBC	—	1,676	—	—	1,676
Mortgage and asset-backed securities:					
GNMA	—	—	—	2,539	2,539
FNMA	—	—	—	2,581	2,581
FHLMC	—	—	—	1,420	1,420
U.S. corporate bonds and notes	9,854	31,014	23,993	78	64,939
Non U.S. corporate bonds	847	6,079	6,847	1,038	14,811
COFINA bonds	—	—	—	58,224	58,224
Total bonds and notes	$ 12,806	41,573	40,575	68,233	163,187

**EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT
OF THE COMMONWEALTH OF PUERTO RICO**

(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Basic Financial Statements

June 30, 2017

	Maturity (in years)				
Investment type	Within one year	After one to five years	After five to ten years	After ten years	Total
Nonexchange commingled equity trust funds and investments in limited partnerships:					
Nonexchange commingled equity trust funds:					
U.S. – SSgA Russell 3000 Fund					120,498
Non-U.S. – SSgA MSCI ACWI Ex USA Fund					61,201
Investments in limited partnerships					87,069
Total nonexchange commingled equity trust funds and investments in limited partnerships					268,768
Total investments					$ 431,955

(1) Nonexchange commingled fixed income trust fund was classified based on effective duration.

(e) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. As of June 30, 2017, the SSgA MSCI ACWI Ex USA Fund is subject to foreign currency risk.

As of June 30, 2017, the composition of the underlying investments in the SSgA MSCI ACWI Ex USA Fund by country was as follows:

Country	SSgA MSCI ACWI EX USA Fund
Japan	16 %
United Kingdom	11
France	7
Canada	7
Germany	7
Switzerland	6
Australia	5
Hong Kong	5
China	4
Korea	4
Taiwan	3
Netherlands	3
Spain	2
India	2
Others	18
Total	100 %

(i) Nonexchange Commingled Trust Funds

As of June 30, 2017, the System owned shares in the SSgA Russell 3000 Index Non-Lending Fund (SSgA Russell 3000 Fund) and the SSgA MSCI ACWI Ex USA Non-Lending Fund (SSgA MSCI ACWI Ex USA Fund) as follows (in thousands):

Fund name	Shares	Value
SSgA Russell 3000 Fund	4,619	$ 120,498
SSgA MSCI ACWI Ex USA Fund	3,096	61,201
Total nonexchange commingled trust funds		$ 181,699

The investment objective of the Russell 3000 Fund is to approximate as closely as practicable, before expenses, the performance of the Russell 3000 Index over the long term. Shares can be redeemed on a daily basis at NAV and have no redemption restrictions.

The investment objective of the SSgA MSCI ACWI Ex USA Fund is to approximate as closely as practicable, before expenses, the performance of the MSCI ACWI ex USA Index over the long term. Shares can be redeemed semi-monthly at NAV and have no redemption restrictions.

As of June 30, 2017, the investments underlying the SSgA Russell 3000 Fund and the SSgA MSCI ACWI Ex USA Fund, had the following sector allocations:

Sector	SSgA Russell 3000 Fund	SSgA MSCI ACWI Ex USA Fund
Information technology	21 %	12 %
Financials	15	22
Healthcare	14	8
Consumer discretionary	12	11
Industrials	11	12
Consumer staples	8	9
Energy	5	8
Real Estate	4	3
Materials	3	8
Utilities	3	3
Telecommunication services	2	4
Unclassified	2	—
Total	100 %	100 %

(ii) *Investments in Limited Partnerships*

The fair value of investments in limited partnerships at June 30, 2017, amounted to approximately $87.0 million and is presented as private equity investments in the basic Statement of Fiduciary Net Position. The allocations of net gains and losses to limited partners are based on certain percentages, as established in the limited partnership agreements. Investments in limited partnerships are not rated by a nationally recognized statistical rating organization.

In accordance with the partnership agreements, the System's investments can only be redeemed upon distribution from funds managers; usually in the form of a sale of its holdings or dividends distributed. As of June 30, 2017, the System does not intend to sell its investments in limited partnerships for an amount different to that presented in the financial statements.

As of June 30, 2017, the date of commitment, total commitment, 2017 contributions, contributions to date at cost, and estimated fair value of investments in limited partnerships are as follows (in thousands):

	Date of commitment	Total commitment	2017 Contributions	Contributions to date at cost	Estimated fair value
Grupo Guayacán, Inc.-					
Guayacán Fund of Funds II, LP	August 1999	$ 25,000	—	23,681	919
Advent-Morro Equity Partner, Inc.:					
Guayacán Private Equity Fund, LP	January 1997	5,000	—	4,645	2,162
Guayacán Private Equity Fund II, LP	April 2007	25,000	—	24,547	22,638
Venture Capital Fund, Inc.	November 1995	800	—	800	654
GF Capital Management and Advisors, LLC – GF Capital Private Equity Fund LP	December 2006	25,000	97	25,890	19,225
Chase Capital Partners Private:					
Equity Fund of Funds Corporate	July 2000	20,000	—	18,994	—
Courage Credit	2017	5,000	2,254	2,254	1,857
Medley Credit Opportunity	2017	15,000	12,953	12,953	12,530
MCOY Investments	2017	10,000	10,000	10,000	9,696
Phoenix	2017	10,000	10,000	10,000	9,641
MCLarty Bluhaus Capital Partner	2017	5,000	250	250	250
Terracap	2017	7,500	6,829	6,829	7,497
Total		$ 153,300	42,383	140,843	87,069

(iii) Securities Lending Transactions

The System participates in a securities lending program, whereby securities are transferred to an independent broker or dealer in exchange for collateral in the form of cash, government securities, and/or irrevocable bank letters of credit with a simultaneous agreement to return the collateral for the same securities in the future. Collateral is marked to market daily and the agent places a request for additional collateral from brokers, if needed. The custodian bank is the agent for the securities lending program.

At the end of the year, there was no credit risk exposure to borrowers because the amounts the System owes the borrowers (the collateral) exceeded the amounts the borrowers owe the System (the securities lent). At June 30, 2017, the collateral received represented 103% of the fair value of the total securities lent.

The securities on loan for which collateral was received as of June 30, 2017, consisted of the following (in thousands):

Description		Fair value of underlying securities
U.S. government securities:		
U.S. Treasury bills	$	657
U.S. Treasury notes		892
U.S. government sponsored agencies notes		752
U.S. corporate bonds and notes		5,058
Total	$	7,359

The underlying collateral for these securities had a fair value of approximately $7.4 million as of June 30, 2017. The collateral received was invested in a money market fund sponsored by the custodian bank. As of June 30, 2017, the short-term investment fund consisted of securities purchased under agreements to resell.

Under the terms of the securities lending agreement, the System is fully indemnified against failure of the borrowers to return the securities lent (to the extent the collateral is inadequate to replace the securities lent) or failure to pay the System for income distributions by the securities' issuers while the securities are on loan. In addition, the System is indemnified against loss should the lending agent fail to demand adequate and appropriate collateral on a timely basis.

(7) Accounts Receivable from Employers

As of June 30, 2017, accounts receivable from employers consisted of the following (in thousands):

Early retirement programs	$	1,865
Special laws		80,627
Employer and employee contributions		887,557
Interest on late payments		95,862
Total accounts receivable from employers		1,065,911
Less allowance for adjustments and losses in realization		(1,029,739)
Total accounts receivable from employers – net	$	36,172

Under Act No. 447, each employer must pay, on a monthly basis, the amounts corresponding to contributions and loan repayments, on or before the fifteenth day of the following month. After that date, interest is charged as established by the System.

As more fully described in note 3, the Commonwealth and many of its instrumentalities, public corporations and municipalities, which are the employers of the System, have been facing significant fiscal and economic challenges. Further, prior to the commencement of the Title III Cases, the rating downgrade and widening of credit spreads for the Commonwealth's public sector and public corporations' debt put further strain on liquidity and sources of funding of the employers. Consequently, most of the receivables from employers are delinquent past established payment dates and/or installment plan due dates. In other instances, amounts past due have continued to be renegotiated to later dates.

As of June 30, 2017, the System recorded an allowance of approximately $1,030 million for adjustments and losses in realization of the salary-based employer contributions and Additional Uniform Contributions due from the Commonwealth, public corporations and municipalities for the fiscal years 2016 and 2017 because, as explained in note 3, their collectability is uncertain.

(8) Member Loans and Interest Receivable

Loans receivable from plan members are guaranteed by the contributions of plan members and by other sources, including mortgage deeds and any unrestricted amount remaining in the escrow funds. In addition, collections on loans receivable are received through payroll withholdings. The latest maximum amount of loans to plan members for mortgage loans was $100,000 and $5,000 for personal and cultural trip loans. The originations of mortgage loans were frozen in December 2013 and those related to personal and cultural loans were frozen in November 2016. During the years ended June 30, 2014 and 2013, personal loans with principal balances amounting to approximately $100 million and $88 million, respectively, were sold to two financial institutions. As per servicing agreements, the System is in charge of the servicing, administration and collection of the loans and outstanding principal balances at and after closing date for a servicing fee of 2%.

The allowance for adjustments and losses in realization is considered a general allowance for all categories of loans and interest receivable, except mortgage loans, and also a specific allowance for the special collection project loans balances.

As of June 30, 2017, the composition of loans and interest receivable from plan members is summarized as follows (in thousands):

Loans receivable:		
Personal	$	298,879
Mortgage		161,495
Cultural trips		36,859
Total loans to plan members		497,233
Accrued interest receivable		29,085
Less allowance for adjustments and losses in realization		(2,875)
Total loans and interest receivable from plan members – net	$	523,443

(9) Other Assets

As of June 30, 2017, other assets mainly consist of repossessed and foreclosed properties acquired through foreclosure proceedings related to delinquent mortgage loans. Foreclosed properties are valued at the outstanding principal balance of the related mortgage loan upon foreclosure. These properties will be sold under a bidding process intended to recover the outstanding principal balance of the related mortgage loan. A gain or loss will be recognized at the time of sale.

Differences resulting from the recognition of losses at the point of sale rather than upon foreclosure, as required by GAAP, are not material. Management believes that the carrying value of these properties approximates fair value.

(10) Bonds Payable

Senior Pension Funding Bonds – On February 27, 2007, the System's administration and GDB, acting as the System's fiscal agent (the Fiscal Agent), presented to the Board of Trustees, a financial transaction for the issuance of pension funding bonds in order to reduce the System's unfunded actuarial accrued liability. The Bonds are limited, nonrecourse obligations of the System, payable solely from and secured solely by a pledge of employer contributions, as defined in the ERS Bond Resolution, made after the date of issuance of the first series of Bonds, and from funds held on deposit with the Bank of New York (the Fiscal Agent). The Bonds are not payable from contributions made to the System by participating employees, or from the assets acquired with the proceeds of the Bonds, or from employer contributions released by the Fiscal Agent to the System after funding of required reserves, or from any other assets of the System. The System invested the proceeds of the Bonds and used these investments and the earnings thereon to provide pension benefits to its beneficiaries.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Basic Financial Statements

June 30, 2017

On January 31, 2008, the System issued the first series of Bonds, which consisted of approximately $1,589 million aggregate principal amount of Senior Pension Funding Bonds, Series A (the Series A Bonds). On June 2, 2008, the System issued the second of such series of Bonds, which consisted of approximately $1,059 million aggregate principal amount of Senior Pension Funding Bonds, Series B (the Series B Bonds). Finally, on June 30, 2008, the System issued the third and final of such series of Bonds, which consisted of approximately $300 million aggregate principal amount of Senior Pension Funding Bonds, Series C (the Series C Bonds).

The following is a summary of changes in the bonds payable principle balance (in thousands):

	Maturity	Balance at June 30, 2016	Accretion	Balance at June 30, 2017
5.85% to 6.45% Term and Capital Appreciation Bonds Series A	2021–2058	$ 1,619,072	4,740	1,623,812
6.25% to 6.55% Term and Capital Appreciation Bonds Series B	2028–2058	1,220,285	26,371	1,246,656
6.15% to 6.50% Term and Capital Appreciation Bonds Series C	2028–2043	301,678	241	301,919
Bond discounts		(6,133)	218	(5,915)
Total		$ 3,134,902	31,570	3,166,472

As of June 30, 2017, the outstanding principal balance of the Bonds is as follows (in thousands):

Description	
Series A Bonds:	
Capital Appreciation Bonds, maturing in 2028, bearing interest at 6.20%	$ 80,042
Term Bonds, maturing from 2021 through 2023, bearing interest at 5.85%	200,000
Term Bonds, maturing from 2031 through 2038, bearing interest at 6.15%	679,000
Term Bonds, maturing from 2039 through 2042, bearing interest at 6.20%	332,770
Term Bonds, maturing from 2055 through 2058, bearing interest at 6.45%	332,000
Total Series A Bonds outstanding	1,623,812

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

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Description		
Series B Bonds:		
Capital Appreciation Bonds, maturing from 2028 through 2030, bearing interest at 6.40%	$	198,959
Capital Appreciation Bonds, maturing from 2031 through 2034, bearing interest at 6.45%		231,597
Term Bonds, maturing in 2031, bearing interest at 6.25%		117,100
Term Bonds, maturing from 2036 through 2039, bearing interest at 6.30%		270,000
Term Bonds, maturing from 2055 through 2058, bearing interest at 6.55%		429,000
Total Series B Bonds outstanding		1,246,656
Series C Bonds:		
Capital Appreciation Bonds, maturing in 2030, bearing interest at 6.50%		3,919
Term Bonds, maturing from 2024 through 2028, bearing interest at 6.15%		110,000
Term Bonds, maturing from 2029 through 2038, bearing interest at 6.25%		45,000
Term Bonds, maturing from 2039 through 2043, bearing interest at 6.30%		143,000
Total Series C Bonds outstanding		301,919
Total bonds outstanding		3,172,387
Less bonds discount		(5,915)
Bonds payable – net	$	3,166,472

Series A Bonds – The aggregate principal amount of the Series A Bonds issued amounted to approximately $1,589 million of which $1,544 million were issued as term bonds (the Series A Term Bonds) and $45 million were issued as capital appreciation bonds (the Series A Capital Appreciation Bonds). Interest in the Series A Term Bonds are payable monthly on the first day of each month. Interest on the Series A Capital Appreciation Bonds are not payable on a current basis but are added to the principal of the Capital Appreciation Bonds on each January 1 and July 1 (Compounding Dates), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360 day year consisting of twelve 30 day months.

The Series A Bonds are subject to redemption at the option of the System from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series A Capital Appreciation Bonds, the accreted amount) of the Series A Bonds, plus accrued interest to the redemption date, and without premium.

In addition, the following Series A Term Bonds are subject to mandatory redemption in part commencing on July 1, 2021 to the extent of the sinking fund requirement for said bonds set forth below at a redemption price equal to 100% of the principal amount thereof plus accrued interest as follows (in thousands):

Redemption period	Subject bonds		Amount
July 1, 2021	Term bonds (final maturity July 1, 2023)	$	50,000
July 1, 2022	Term bonds (final maturity July 1, 2023)		70,000
July 1, 2023	Term bonds (final maturity July 1, 2023)		80,000
	Subtotal		200,000
July 1, 2031	Term bonds (final maturity July 1, 2038)		3,000
July 1, 2032	Term bonds (final maturity July 1, 2038)		4,500
July 1, 2033	Term bonds (final maturity July 1, 2038)		4,000
July 1, 2034	Term bonds (final maturity July 1, 2038)		133,500
July 1, 2035	Term bonds (final maturity July 1, 2038)		133,500
July 1, 2036	Term bonds (final maturity July 1, 2038)		133,500
July 1, 2037	Term bonds (final maturity July 1, 2038)		133,500
July 1, 2038	Term bonds (final maturity July 1, 2038)		133,500
	Subtotal		679,000
Total		$	879,000

Series B Bonds – The aggregate principal amount of the Series B Bonds amounted to approximately $1,059 million of which $816 million were issued as term bonds (the Series B Term Bonds) and $243 million were issued as capital appreciation bonds (the Series B Capital Appreciation Bonds). Interest in the Series B Term Bonds are payable monthly on the first day of each month. Interest on the Series B Capital Appreciation Bonds are not payable on a current basis but are added to the principal of the Series B Capital Appreciation Bonds on each January 1 and July 1 (Compounding Dates), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360 day year consisting of twelve 30 day months.

The Series B Bonds are subject to redemption at the option of the System from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series B Capital Appreciation Bonds, the accreted amount) of the Series B Bonds, plus accrued interest to the redemption date, and without premium.

Series C Bonds – The aggregate principal amount of the Series C Bonds amounted to approximately $300 million of which $298 million were issued as term bonds (the Series C Term Bonds) and $2 million were issued as capital appreciation bonds (the Series C Capital Appreciation Bonds). Interest in the Series C Term Bonds are payable monthly on the first day of each month. Interest on the Series C Capital Appreciation Bonds are not payable on a current basis, but are added to the principal of the Series C Capital Appreciation Bonds on each January 1 and July 1 (Compounding Dates), and are treated as if

accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360 day year consisting of twelve 30 day months.

The Series C Bonds are subject to redemption at the option of the System from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series C Capital Appreciation Bonds, the accreted amount) of the Series C Bonds, plus accrued interest to the redemption date, and without premium.

In addition, the following Series C Term Bonds are subject to mandatory redemption in part commencing on July 1, 2024 to the extent of the sinking fund requirement for said bonds set forth below at a redemption price equal to 100% of the principal amount thereof plus accrued interest as follows (in thousands):

Redemption period	Subject bonds		Amount
July 1, 2024	Term bonds (final maturity July 1, 2028)	$	18,700
July 1, 2025	Term bonds (final maturity July 1, 2028)		22,000
July 1, 2026	Term bonds (final maturity July 1, 2028)		29,150
July 1, 2027	Term bonds (final maturity July 1, 2028)		36,300
July 1, 2028	Term bonds (final maturity July 1, 2028)		3,850
	Subtotal		110,000
July 1, 2029	Term bonds (final maturity July 1, 2038)		100
July 1, 2030	Term bonds (final maturity July 1, 2038)		540
July 1, 2031	Term bonds (final maturity July 1, 2038)		100
July 1, 2032	Term bonds (final maturity July 1, 2038)		3,420
July 1, 2033	Term bonds (final maturity July 1, 2038)		4,320
July 1, 2034	Term bonds (final maturity July 1, 2038)		100
July 1, 2035	Term bonds (final maturity July 1, 2038)		11,940
July 1, 2036	Term bonds (final maturity July 1, 2038)		2,160
July 1, 2037	Term bonds (final maturity July 1, 2038)		7,920
July 1, 2038	Term bonds (final maturity July 1, 2038)		14,400
	Subtotal		45,000
July 1, 2039	Term bonds (final maturity July 1, 2043)		28,600
July 1, 2040	Term bonds (final maturity July 1, 2043)		28,600
July 1, 2041	Term bonds (final maturity July 1, 2043)		28,600
July 1, 2042	Term bonds (final maturity July 1, 2043)		28,600
July 1, 2043	Term bonds (final maturity July 1, 2043)		28,600
			143,000
Total		$	298,000

Debt service requirements in future years on the System's bonds as of June 30, 2017 are as follows (in thousands):

	Principal	Interest	Total
Year ending June 30:			
2018	$ —	166,519	166,519
2019	—	166,519	166,519
2020	—	166,519	166,519
2021	—	166,519	166,519
2022	—	166,519	166,519
2023–2027	200,000	751,232	951,232
2028–2032	1,036,595	702,754	1,739,349
2033–2037	452,745	695,887	1,148,632
2038–2042	1,210,220	407,702	1,617,922
2043–2047	180,550	256,577	437,127
2048–2052	—	247,568	247,568
2053–2057	362,800	212,062	574,862
2058–2062	398,200	14,401	412,601
	3,841,110	$ 4,120,778	7,961,888
Less:			
Unaccreted interest	(668,723)		
Unamortized discount	(5,915)		
Total	$ 3,166,472		

Pledge of Employer Contributions Pursuant to Security Agreement – The System entered into a Security Agreement with the Fiscal Agent for the benefit of the bondholders, pursuant to which the System pledged to the Fiscal Agent, and granted the Fiscal Agent a security interest in employer contributions, as defined in the ERS Bond Resolution, made after January 31, 2008, which was the date of issuance of the first series of bonds, and the funds on deposit with the Fiscal Agent under the various accounts established under the Pension Funding Bond Resolution (the Resolution).

The Resolution and the Security Agreement constitute a contract between the System and the Fiscal Agent, on behalf of the owners of the bonds. The pledge, covenants and agreements of the System set forth in the Resolution and the Security Agreement shall be for the equal benefit, protection and security of the owners of the bonds, regardless of time or times of their issuance or maturity, and shall be of equal rank, without preference, priority or distinction of any of the bonds over any other bond, except as expressly provided in or permitted by the Resolution. Annual employer contributions that are made after January 31, 2008, which was the date of issuance of the first series of bonds, in accordance with the Act and amounts on deposit in the different accounts created pursuant to the Resolution for the benefits of the owners of the

bonds, are pledged for annual debt service requirements as established. The pledge is irrevocable so long as any bonds are outstanding under the terms of the Resolution.

Starting in August 2016, and monthly thereafter, the Fiscal Agent under the Resolution of the System's bonds notified to the System that it failed to transfer the requisite employers' contributions on the last business day of each month. The Fiscal Agent is not seeking to collect or recover any indebtedness from, enforce any judgment against, or obtain possession of, exercise control over, any property of or from, the Commonwealth or any of its instrumentalities, including the System, or exercise any act that is stayed by PROMESA, the Puerto Rico Financial Emergency and Fiscal Responsibility Act of January 29, 2017 (Act No. 5 or the Financial Emergency Act), the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act (Act No. 21 or the Moratorium Act), or any Executive Orders related thereto. The Fiscal Agent, however, has filed a proof of claim against the Commonwealth and the System in their respective Title III cases seeking the total aggregate amount of the outstanding System bonds. As discussed further in note 13, the validity of the System's bonds is currently being challenged in the Title III Court.

Bonds Credit Rating Downgrades - On June 24, 2016, Fitch Ratings Inc. downgraded the System's Bonds from "CC" to "C" and placed them on "negative" outlook. Fitch cited "the breakdown of negotiations between the Commonwealth and major bondholders, the recent ruling by the U.S. Supreme Court on the Commonwealth's bankruptcy legislation, and the slow process of federal legislation in support of the Commonwealth as indicators that a debt restructuring, deferral or default has become inevitable. On April 5, 2017, Moody's Investors Service downgraded the System's Bonds to from "C" to "Ca" and placed them on "negative" outlook, citing "persistent pressures on Puerto Rico's economic base that indicate a diminishing perceived capacity to repay." Standard & Poor's Ratings Services currently rates the System's Bonds at "CC."

(11) Guarantee Insurance Reserve for Member Loans

The System provides life insurance that guarantees the payment of the outstanding principal balance of mortgage, personal and cultural trip loans in case of death of a plan member. The plan members who obtained these loans from the System pay the coverage in its entirety. The life insurance rates are actuarially determined and do not vary by age, sex, or health status.

(12) Other Postemployment Healthcare Benefits Funded Status and Funding Progress

The System's other postemployment healthcare benefits (OPEB) funded status as of June 30, 2017, the most recent actuarial valuation date, is as follows (dollars in thousands):

Actuarial value of plan assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded ratio	Annual covered payroll	UAAL as a percentage of annual covered payroll
$ —	1,138,309	1,138,309	— %	$ 3,344,197	34.0 %

The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

Act No. 3 eliminated the medical insurance plan contribution of $100 per month for future retirees effective July 1, 2013.

The census data collection date is at the beginning-of-fiscal-year. The liability results as of June 30, 2017 are based on projecting the System obligations determined as of the census data collection date of July 1, 2016 for one year, using roll-forward methods and assuming no liability gains or losses. The amortization period for GASB Statement No. 45 has been reduced to the expected future lifetime of current in pay members.

The actuarial valuations used the following actuarial assumptions:

Actuarial cost method	Entry age normal
Amortization method	18 years closed (beginning July 1, 2014), level dollar
Remaining amortization period	16 years
Asset valuation method	Not applicable
Actuarial assumptions:	
Investment rate of return	3.00%
Projected salary increases	Not applicable
Projected payroll growth	Not applicable
Inflation	Not applicable
Cost of living adjustment	Not applicable

Actuarial valuations of an ongoing plan involve estimates of the net value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and mortality. Amounts determined are subject to continuous revision as actual results are compared with past expectations and new estimates are made about the future.

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projection of OPEB for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

The actuarial calculations reflect a long–term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short–term volatility in actuarial accrued liabilities and actuarial value of assets.

The OPEB mortality rate assumptions are the same as that for pension benefits. For additional information refer to note 5.

(13) Contingencies

A. Litigation Filed by Creditors Against the System Before Commencement of the Title III Case

Administración de los Sistemas de Retiro de los Empleados del Gobierno y la Judicatura de Puerto Rico, et. al v. UBS Fin. Servs. Inc. of Puerto Rico, et al., Civ. No. KAC-2011-1067 (803) (P.R. Ct. of First Instance Sept. 29, 2011)

On September 29, 2011, two System beneficiaries commenced a derivative suit in the Commonwealth of Puerto Rico Court of First Instance, San Juan Part (the Commonwealth Court), alleging breach of fiduciary duties and breach of contract against the underwriters in the issuance and underwriting of $3 billion of the System Bonds in 2008 (the UBS Action). On December 7, 2016, the Commonwealth Court allowed the System to intervene and ordered the plaintiffs, which now include the System and seven individual plaintiffs (collectively, the Plaintiffs), to file a third amended complaint against the underwriters, including UBS Financial Services Inc. of Puerto Rico (UBS), and related entities (collectively, the UBS Defendants). UBS had served as the lead underwriter of the 2008 System Bonds.

Among other things, Plaintiffs allege that by participating as the lead underwriter of the 2008 System Bonds, UBS violated its contractual, non-contractual and fiduciary obligations to the System. The Plaintiffs seek a ruling that UBS is liable to the System for over $800 million for underwriting the 2008 System Bonds.

On March 6, 2019, Plaintiffs filed the Fourth Amended Complaint against the UBS Defendants, which was accepted by the Commonwealth Court on April 15, 2019. On April 29, 2019, UBS filed its answer and an informative motion regarding its intent to file a counterclaim if the System's Title III automatic stay were to be lifted. The proposed counterclaim attached to the informative motion alleges breach of contract and indemnification arising out of the System's issuance of the 2008 System Bonds.

On June 25, 2019, the Oversight Board filed a motion to stay certain contested matters pending confirmation of a proposed plan of adjustment for the Commonwealth. On July 24, 2019, the Title III Court entered an order staying until November 30, 2019, various adversary proceedings and claims objections before it with overlapping issues, including those involving the validity of the System Bond issuances. UBS contends that the UBS Action in the Commonwealth Court should be stayed pending the Title III Court's resolution of alleged common legal issues.

On October 8, 2019, UBS filed a motion for relief from the automatic stay in order to assert counterclaims in the Commonwealth Court for breach of contract and indemnification against the System in the UBS Action. UBS asserts that the System represented in the 2008 System Bond Offering Statements that it was issuing the 2008 System Bonds in accordance with the authority provided under the Retirement Act, and that the 2008 System Bonds would be legally binding special obligations of the System. UBS also argues that the System represented in the purchase contracts entered into with UBS that the System had full right, power and legal authority to issue the bonds, and it was not in violation of

any law On December 11, 2019, the Title III Court held a hearing on UBS's stay relief motion. On December 16, 2019, the Title III Court granted UBS limited relief from the stay solely to allow UBS to present its proposed counterclaims in the Commonwealth Court. On February 4, 2020, UBS submitted its counterclaims in the Commonwealth Court. On March 9, 2020, the Oversight Board filed its objections to the counterclaims. On March 30, 2020, UBS renewed its stay relief motion, arguing that the Oversight Board's objection to the counterclaims violated the December limited lift-stay order and the Commonwealth Court should now be free to hear the Oversight Board's objections. On April 22, 2020, the Title III Court denied the motion.

UBS has also filed two proofs of claim against the System related to the UBS Action, as well as two proofs of claim related to *Casasnovas Balado v. UBS Fin. Servs., Inc.*, No. K AC-2014-0072 (905) (P.R. Ct. of First Instance Jan. 29, 2016), an action filed by a group of individual plaintiffs arising from the System Bond issuances.

B. Litigation Filed by Creditors Against the System After Commencement of the Title III Case

Employees Ret. Sys. of the Gov't of the Commonwealth of Puerto Rico, et al. v. Altair Global Credit Opportunities Fund (A), LLC, et al., Adv. Pro. No. 17-00213 (D.P.R. July 21, 2017)

On July 21, 2017, the Oversight Board, as representative of the System in its Title III case, commenced an adversary proceeding challenging the System bondholders' security interests in various system assets through a declaratory relief action (the System Declaratory Relief Action). Through the System Declaratory Relief Action, the Oversight Board, as representative of the System in the Title III case, sought declaratory relief challenging the validity, priority, extent, and enforceability of the prepetition and postpetition liens and security interests asserted by defendants with respect to bonds issued by the System. The complaint contends that the System bondholders' alleged liens and security interests are not perfected because the required UCC financing statements and subsequent amendments were defective, and therefore the liens could be avoided in the Title III case. The System Declaratory Relief Action also challenged, among other things, the System bondholders' alleged security interest in postpetition employer contributions.

On August 17, 2018, the Title III Court granted partial summary judgment in favor of the System. The Title III Court held, among other things, that the System bondholders' liens are not perfected and their security interests are avoidable under Bankruptcy Code section 544. On September 5, 2018, the Title III Court entered an order dismissing the remaining counts and counterclaims. This decision was appealed to the United States Court of Appeals for the First Circuit.

On January 30, 2019, the First Circuit (i) affirmed the Title III Court's holding that the 2018 financing statements related to the System's bonds did not perfect the System bondholders' security interest in pledged property, (ii) affirmed the dismissal of the System bondholders' claim regarding a January 2017 stipulation, and (iii) reversed the Title III Court by finding that the System bondholders met the requirement for perfection beginning on December 17, 2015. In addition, the First Circuit remanded certain counterclaims to the Title III Court for further consideration. On April 30, 2019, the Oversight Board, on behalf of the System, filed a petition for a *writ of certiorari* with the United States Supreme Court, seeking to reverse the First Circuit's decision. The petition was denied on October 7, 2019.

On remand, the System requested that the Title III Court (i) determine the undecided issue of whether the System bondholders' security interests attach to revenues received by the System after commencement of its Title III case (the Post-Petition Revenue Issue) and (ii) grant it leave to file an amended adversary complaint to raise issues concerning the nature or extent of the System bondholders' security interests. On May 6, 2019, the Title III Court agreed to determine the Post-Petition Revenue Issue, but denied the System's request for leave to amend its complaint. On June 27, 2019, the Title III Court granted summary judgment in favor of the System on the Post-Petition Revenue Issue, holding that Bankruptcy Code section 552 prevents the System bondholders' security interests from attaching to revenues received by the System post-petition, and finding that employers' contributions are not "special revenues" within the meaning of Bankruptcy Code section 902. On July 18, 2019, the System's bondholders appealed the Title III Court's decision to the United States Court of Appeals for the First Circuit. On January 30, 2020, the First Circuit issued an opinion affirming the Title III Court's decision. On March 3, 2020, the First Circuit denied the System bondholders petition for rehearing *en banc*.

Andalusian Global Designated Activity Co., et al. v. Commonwealth of Puerto Rico, et al., Adv. Pro. Nos. 17-00219-LTS, 17-00220-LTS (D.P.R. July 27, 2017)

On July 27, 2017, a group of System bondholders commenced adversary proceedings against the Commonwealth and the System in the cases initially captioned as *Altair Global Credit Opp. Fund (A), LLC, et al. v. Commonwealth of Puerto Rico, et al.*, Adv. Pro. Nos. 17-00219-LTS, 17-00220-LTS (D.P.R. July 27, 2017) (collectively, the PayGo Litigation), seeking a declaration that Joint Resolution 188 and Act 106-2017 (collectively, the PayGo Statute)are void *ab initio* because they violate the Title III automatic stay and the Contracts Clause and Takings Clause of the United States Constitution.

On November 17, 2017, the Oversight Board, as representative of the System in its Title III case and joined by FAFAA and the Retiree Committee, filed a motion to dismiss the PayGo Litigation. On February 2, 2018, the Title III Court issued an order informing the parties that the motion to dismiss would be taken under submission. On September 9, 2018, the Title III Court stayed the case pending the United States Court of Appeals for the First Circuit's decision on the summary judgment appeal in the System Declaratory Relief Action, which decision was rendered on January 30, 2019 (as discussed above). In light of the stay, on September 27, 2018, the Title III Court terminated the motion to dismiss without prejudice to its restoration on request following termination of the stay. No parties have moved to lift the stay.

On March 1, 2019, the Title III Court dismissed this case without prejudice as to Altair Global Credit Opportunities Fund (A), LLC and Nokota Capital Master Fund, L.P. As a result, the case was re-captioned *Andalusian Global Designated Activity Co. et al v. Commonwealth of Puerto Rico, et al.*, Adv. Pro. Nos. 17-00219-LTS, 17-00220-LTS (D.P.R.). On March 5, 2019, the Title III Court entered an order allowing certain System Bondholders – Crown Managed Accounts (for and on behalf of Crown/PW SP), LMA SPC (for and on behalf of Map 98 Segregated Portfolio), Oceana Master Fund Ltd., Pentwater Merger Arbitrage Master Fund Ltd., and PWCM Master Fund Ltd. – to intervene in the adversary proceeding. On October 25, 2019, these System Bondholders filed a motion to inform filing of a response to certain arguments concerning the validity of bonds issued by the System in the omnibus claims objections of the Creditors' Committee and the Retiree Committee, as well as in the motion to dismiss. As of the date of these financial statements, there has been no further docket activity.

C. Key Contested Matters in the System's Title III Case

Appointments Clause Litigation, Case No. 17-3566-LTS (D.P.R. Aug. 7, 2017)

On August 7, 2017, a group of GO bondholders led by Aurelius Investment, LLC, Aurelius Opportunities Fund, LLC, and Lex Claims, LLC (collectively, Aurelius) filed a motion to dismiss the Title III petitions. In the motion, Aurelius argued that the appointment of the Oversight Board members violated the "Appointments Clause" of the United States Constitution, which requires that "principal officers" of the United States be appointed by the President and confirmed by the Senate. The Title III Court denied Aurelius' motion to dismiss, and Aurelius appealed to the United States Court of Appeals for the First Circuit. On February 15, 2019, the First Circuit reversed the Title III Court, holding that the Oversight Board members' appointment process violated the Appointments Clause. The First Circuit stayed its ruling for 90 days to allow the President and Senate to appoint the members of the Oversight Board in accordance with the United States Constitution. It also expressly validated all of the Oversight Board's past actions, including any actions taken by the Oversight Board during the 90-day stay period.

On April 23, 2019, the Oversight Board appealed the First Circuit's decision to the United States Supreme Court by filing a petition for a writ of certiorari. On April 24, 2019, the Oversight Board filed a motion in the First Circuit requesting an extension of the 90-day stay of its February 15 decision until the Supreme Court's final disposition of the case. On May 6, 2019, the First Circuit granted in part the Oversight Board's extension motion by extending the stay of its February 15 decision until July 15, 2019, but denied the request to extend the stay indefinitely until the Supreme Court's final disposition of the case.

On May 30, 2019, Aurelius filed a cross petition for a writ of certiorari in the United States Supreme Court to challenge the First Circuit's validation of the Oversight Board's past actions under the de facto officer doctrine. On June 6, 2019, the Solicitor General of the United States and the Creditors' Committee each filed separate petitions for writs of certiorari in the United States Supreme Court to address whether the members of the Oversight Board are "Officers of the United States" within the meaning of the Appointments Clause. On June 14, 2019, Unión de Trabajadores de la Industria Eléctrica y Riefo (UTIER) – the plaintiff in a related adversary proceeding under Case Nos. 17-00228 –

LTS – filed its own separate petition for a writ of certiorari in the United States Supreme Court to challenge the First Circuit's application of the de facto officer doctrine.

On June 18, 2019, the President of the United States re-nominated all seven original Oversight Board members to complete the remainder of their terms, and these nominations are currently pending before the United States Senate.

On June 20, 2019, the United States Supreme Court granted the Oversight Board, Aurelius, Solicitor General, Creditors' Committee, and UTIER petitions for writs of certiorari and stayed the First Circuit decision pending its final determination. Oral argument on the appeal was heard before the United States Supreme Court on October 15, 2019. As of the date of these financial statements, the Supreme Court has not yet entered its decision on the appeal.

Motion of Certain Secured Creditors of the System for Relief from the Automatic Stay, Case No. 17-3566-LTS (D.P.R. July 3, 2018)

On July 3, 2018, a group of System bondholders (including Altair Global, Andalusian Global, Glendon Opportunities Fund, Mason Capital, Nokota Capital, Oaktree, Ocher Rose, SV Credit and a number of Puerto Rico-based mutual funds) filed a motion (the Stay Relief Motion) in the System's Title III case arguing that the Prepetition Segregated Account would run out of funds in August 2018, depriving bondholders of adequate protection in the form of monthly interest payments and therefore leaving movants' constitutionally-protected property interests unprotected. Movants asserted that relief from the Title III stay was necessary in order to maintain the status quo pending the Title III Court's resolution of the cross-motions for summary judgment in the System Declaratory Relief Action (discussed above). In the alternative, movants requested adequate protection of their liens on property of the System. On August 21, 2018, the Title III Court denied the Stay Relief Motion, and on August 29, 2018, the System bondholders filed an appeal to the United States Court of Appeals for the First Circuit.

On February 21, 2019, movants renewed their Stay Relief Motion following the First Circuit's January 30, 2019 reversal, in part, of the Title III Court's August 17, 2018 order in the System Declaratory Relief Action. In light of the Title III Court's June 27, 2019 decision in the System Declaratory Relief Action, the Title III Court terminated the renewed Stay Relief Motion without prejudice on July 8, 2019.

Omnibus Objections to System Bondholder Claims, Case No. 17-3566-LTS

On March 12, 2019, the Creditors' Committee filed an omnibus objection to all claims asserted against the System based on the approximately $3.1 billion of outstanding bonds issued by the System in 2008 (the Creditors' Committee System Bond Claims Objection). The Creditors' Committee System Bond Claims Objection argues that the System was only authorized to issue a "direct placement of debts," which the Creditors' Committee claims means a "private placement, not a public offering." Because the System Bonds were issued in a public offering, the Creditors' Committee asserts that the System Bonds were *ultra vires* and are thus "null and void." As a result, the Creditors' Committee seeks an order disallowing all System bond claims in their entirety. Also on March 12, 2019, the Creditors'

Committee filed a procedures motion related to the adjudication of the Creditors' Committee System Bond Claims Objection.

On April 23, 2019, the Retiree Committee filed an omnibus objection (the Retiree Committee System Bond Claims Objection) to all System bondholder claims asserted against both the System and the Commonwealth on the grounds that the System Bonds were issued *ultra vires* and that the System bondholders have no enforceable claim with respect to the System Bonds.

On July 24, 2019, the Title III Court entered an order (the July 24 Stay Order) staying the Creditors' Committee System Bond Claims Objection and Retiree Committee System Bond Claims Objection (together, the "System Bond Claims Objections).

On October 18, 2019, the parties to the System Bond Claims Objections jointly filed a motion and stipulated order seeking to modify the July 24, Stay Oder by allowing for the *ultra vires* issues and lien-scope issues raised in the objections to proceed. On October 24, 2019, the Title III Court has not yet entered the stipulated order granted the motion and established a discovery and briefing schedule related to the ultra vires and lien-scope issues through May 2020. On October 28, 2019, the Title III Court entered an order requiring a mediation report and/or scheduling order as to the remaining stayed matters by November 27, 2019 and extended the stay through December 31, 2019 as to all other matters not related to the ultra vires and lien-scope issues. On November 27, 2019, the court – appointed mediation team filed an interim status report, which provided recommended scheduling and sequencing of certain key litigation issues, including (i) the validity of certain challenged series of GO and PBA bonds; (ii) the secured or unsecured status of claims on GO and PBA bonds; and (iii) the rights, as against the Commonwealth, of holders of revenue bonds and other debt issued by certain Puerto Rico instrumentalities. Under the proposed scheduling order contained in the interim status report, the mediation team has proposed initial briefing on these issues to commence in February 2020 with hearings scheduled on April 30, 2020 and in June 2020. On December 27, 2019, the Title III Court entered an amended order extending the stay through March 11, 2020. On February 10, 2020, the mediation team filed an amended report, which the Title III Court considered at a hearing held on March 4, 2020. On March 10, 2020, the Title III Court entered a final order on the stay period, authorizing certain lift stay motions and revenue bond complaints to proceed but otherwise kept the stay in place for proceedings that do not involve ultra vires and/or lien-scope issues pending the Title III Court's decision on confirmation of the Amended Plan (defined below).

On January 6, 2020, the Oversight Board and Creditors' Committee filed several additional objections to the proofs of claim filed by the System Fiscal Agent and System bondholders. The Oversight Board filed an objection to the System Fiscal Agent's proof of claim, which asserts a claim for approximately \$3.8 billion in principal, \$9.2 million in accrued but unpaid interest, and other fees and expenses. Referencing the System Bond Claims Objections, the Oversight Board argues that the System Fiscal Agent's claim should be disallowed because the bonds were issued ultra vires, but even if the issuance was not ultra vires the Fiscal Agent is undersecured and is only entitled to assets in which the Fiscal Agent has a security interest and can be traced (if any). The Oversight Board also filed objections to the System bondholders' proofs of claim against the System, similarly arguing that the bondholders' claims should be disallowed as duplicative of the Fiscal Agent's claim. In addition, the Creditors'

Committee filed an objection to System bondholder claims, reiterating that it seeks disallowance of the bondholders' claims on ultra vires grounds and, alternatively, the System bondholders' asserted secured claims against the System's property are limited only to employer contributions held by the System on its Title III case petition date that are identifiable from other System assets, which System bondholders will not be able to show.

System Clawback Litigation, Adv. Pro. Nos. 19-355, 19-356, 19-357, 19-358, 19-359, 19-360, and 19-361-LTS (D.P.R. May 19, 2019)

On May 19, 2019, the Creditors' Committee and the Oversight Board, acting through its Special Claims Committee, commenced seven adversary proceedings (collectively, the System Clawback Litigation) against approximately 230 defendants that owned or currently own Bonds. The plaintiffs seek declaratory relief relating to the Bonds and recovery of certain payments of principal and interest on the Bonds. On May 21, 2019, the plaintiffs filed a motion requesting that the Title III Court enter an order (i) extending the period for serving domestic defendants in the Avoidance Actions to November 18, 2019, and (ii) otherwise staying the Avoidance Actions pending a joint request by both plaintiffs to resume a particular proceeding or further order of the Title III Court.

On July 24, 2019, the Title III Court entered an order staying the System Clawback Litigation through November 30, 2019 and required mandatory mediation of the issues during the stay period.

On October 18, 2019, the parties to the System Clawback Litigation jointly filed a motion and stipulated order seeking to modify the July 24, 2019 stay order Stay Order by allowing for the ultra vires issues related to the ERS Bonds System bonds to proceed. The On October 24, 2019, the Title III Court has not yet entered the stipulated order.granted the motion to modify the July 24 Stay Order and established a discovery and briefing schedule related to the ultra vires issues through May 2020. On November 1, 2019, defendant bond holders commenced discovery against various parties and non-parties, including the System, related to the ultra vires issues. As of the date hereof, the discovery process is ongoing.

On October 28, 2019, the Title III Court entered an order requiring a mediation report and/or scheduling order as to the remaining stayed matters by November 27, 2019 and extended the stay on non-ultra vires matters through December 31, 2019. On December 27, 2019, the Title III Court entered an amended order extending the stay on non-ultra vires matters through March 11, 2020. On March 10, 2020, the Title III Court entered a final order on the stay period, authorizing certain lift stay motions and revenue bond complaints to proceed but otherwise kept the stay in place for proceedings that do not involve ultra vires and/or lien-scope issues pending the Title III Court's decision on confirmation of the Amended Plan (defined below).

Lien-Scope Adversary Proceedings, Adv. Pro. Nos. 19-00366-LTS (D.P.R.) and 19-00367-LTS (D.P.R.).

On May 20, 2019, the System and the Creditors' Committee commenced separate adversary proceedings (collectively, the "Lien-Scope Actions") against the Fiscal Agent and certain beneficial

owners of the Bonds, alleging that the defendants do not hold valid and enforceable security interests in any of the System's remaining assets or the proceeds thereof (except certain accounts receivable).

On July 24, 2019, the Title III Court entered an order staying Lien-Scope Actions through November 30, 2019 and required mandatory mediation of the issues during the stay period.

On October 18, 2019, the parties to the Lien-Scope Actions jointly filed a motion and stipulated order seeking to modify the July 24, 2019 stay order Stay Order by allowing for issues regarding the scope of the System bondholders' liens the lien-scope issues raised in the complaints to proceed.

On October 24, 2019, the Title III Court has not yet entered the stipulated order.granted the motion and established a discovery and briefing schedule related to the lien-scope issues through May 2020. On November 1, 2019, defendant bondholders commenced discovery against various parties and non-parties, including the System. As of the date hereof, the discovery process is ongoing.

On October 28, 2019, the Title III Court entered an order requiring a mediation report and/or scheduling order as to the remaining stayed matters by November 27, 2019 and extended the stay through December 31, 2019 as to all other matters not related to the lien-scope issues. On November 27, 2019, the court-appointed mediation team filed an interim status report, which provided recommended scheduling and sequencing of certain key litigation issues, including (i) the validity of certain challenged series of GO and PBA bonds; (ii) the secured or unsecured status of claims on GO and PBA bonds; and (iii) the rights, as against the Commonwealth, of holders of revenue bonds and other debt issued by certain Puerto Rico instrumentalities. Under the proposed scheduling order contained in the interim status report, the mediation team has proposed initial briefing on these issues to commence in February 2020 with hearings scheduled on April 30, 2020 and in June 2020. On December 27, 2019, the Title III Court entered an amended order extending the stay through March 11, 2020. On February 10, 2020, the mediation team filed an amended report and recommendation and parties filed their responses to the amended report on February 21, 2020. On March 10, 2020, the Title III Court entered a final order on the stay period, authorizing certain lift stay motions and revenue bond complaints to proceed but otherwise kept the stay in place for proceedings that do not involve ultra vires and/or lien-scope issues pending the Title III Court's decision on confirmation of the Amended Plan (refer to note 14 for details).

The Fin. Oversight & Mgmt. Bd. for Puerto Rico v. Vásquez, Adv. Pro. No. 19-00393 (D.P.R.) (Jul. 3, 2019)

On July 3, 2019, the Oversight Board filed a complaint against the Governor and FAFAA seeking injunctive relief to prevent the implementation and enforcement of Act 29-2019, which eliminated the obligation of municipalities to make PayGo payments to the Commonwealth, and various joint resolutions because (i) Act 29 violated PROMESA sections 204(a) and 207; (ii) Act 29-2019 and the joint resolutions violated PROMESA section 204(c); (iii) Act 29-2019 and the joint resolutions violated PROMESA section 108(a) because they impair and/or defeat the purposes of PROMESA, as determined by the Oversight Board; and (iv) the Governor's alleged policy of not providing certifications as required under PROMESA section 204 violated PROMESA section 108(a) because it impairs and/or defeats the purposes of PROMESA, as determined by the Oversight Board.

On July 15, 2019, the Governor and FAFAA moved to dismiss the complaint. On August 22, 2019, the Title III Court denied the motion to dismiss in its entirety. On September 10, 2019, the Governor and FAFAA answered the complaint. On December 13, 2019, the Oversight Board filed a motion for summary judgment. On February 5, 2020, the Governor and FAFAA filed their opposition to the Oversight Board's summary judgment motion. On March 5, 2020, the Title III Court heard oral argument on the summary judgment motion. As of the date hereof, the Title III Court has not yet made a final determination on the merits or issued its decision.

ERS Bondholders' Motion to Appoint Trustee, Case No. 17-03566-LTS (D.P.R. Nov. 19, 2019)

On November 19, 2019, a certain a group of System Bondholders (including Andalusian Global, Crown Managed Accounts, Glendon Opportunities, LMA SPC, Mason Capital, Oaktree, Oceana, and Pentwater) filed a motion (the Trustee Motion) in the System's Title III case arguing that the Court should appoint a trustee pursuant to Bankruptcy Code section 926 to pursue avoidance claims against the Commonwealth on behalf of the System. Movants specifically sought to have a trustee appointed to avoid alleged transfers made by the System to the Commonwealth pursuant to pension reform legislation enacted by the Commonwealth government. Movants asserted that the Oversight Board unjustifiably refused to pursue these avoidance claims and that the Oversight Board had a conflict of interest because it represents both the Commonwealth and the System. On January 7, 2020, the Title III Court denied the Trustee Motion, and on January 10, 2020, the System Bondholders filed an appeal to the United States Court of Appeals for the First Circuit. On March 19, 2020, the First Circuit issued an opinion affirming the Title III Court's order denying the Trustee Motion

In addition to the foregoing matters, the System is a defendant or co-defendant in various lawsuits resulting from the ordinary conduct of its operations. Based on the advice of legal counsel and considering insurance coverages, management is of the opinion that the ultimate liability, if any, will not have a material effect on the financial status of the System.

(14) Subsequent Events

Subsequent events were evaluated through June 29, 2020, the date the financial statements were available to be issued, to determine if such events should be recognized or disclosed in the 2017 financial statements. The subsequent events disclosed below are principally those related to debt activities, including fiscal events and related legislation, both local and federal, that management believes are of public interest for disclosure.

A. Sale of System Investments

On June 23, 2017, the Legislative Assembly approved certain other assignments for fiscal year 2018 under Joint Resolution 188, which among other things, ordered the System, JRS, and TRS to liquidate their assets and pass the net proceeds to the Treasury Department. In July 20, 2017, the System sold investments in the total aggregate amount of approximately $297 million and transferred approximately $190 million of the net proceeds to the Treasury Department as required under Joint Resolution 188.

B. PayGo Pension Reform

On June 27, 2017, the Treasury Department issued Circular Letter No. 1300-46-17 to convey to the central government agencies, public corporations and municipalities the new implementation procedures to adopt, effective July 1, 2017, a new "pay-as-you-go" (PayGo) system. With the start of fiscal year 2018, employers' contributions, contributions ordered by special laws, and the Additional Uniform Contribution were all eliminated.

The PayGo system was one component of Act 106-2017, which the Governor signed into law on August 23, 2017. Act 106-2017 created the legal framework for the Commonwealth to guarantee benefit payments to pensioners through the PayGo system. Approximately $2 billion was allocated for these purposes in each of the budgets for fiscal year 2018 and fiscal year 2019. Act 106-2017 also created a Defined Contributions Plan, similar to a 401(k) plan, that will be managed by a private entity. Future benefits will not be paid by the Retirement Systems.

Act 106-2017, among other things, amended Act No. 12 with respect to the System's governance, funding and benefits for active members of the actual program and new hired members. Under Act 106-2017, the System's board of trustees was eliminated and a new Retirement Board was created. The Retirement Board is currently responsible for governing both the System, JRS and TRS.

Act 106-2017 terminated the previously existing pension programs for the System participants as of June 30, 2017. The members of the prior programs and new system members hired on and after July 1, 2017 will be enrolled in a new defined contributions program that will be selected by the Retirement Board. The accumulated balance on the accounts of the prior program will be transferred to the member accounts in the new defined contribution program. The System's active members of the defined contributions program will retain their benefits as stated under Act 91 of March 29, 2003.

Act 106-2017 also ordered a suspension of the System's loan programs and ordered a merger of the administrative structures of the retirement systems. At the Retirement Board's discretion, the administration of the System benefits may be externalized. The employees of the System that are not retained under the new administrative structure will be transferred to other public agencies in conformity with Act No. 8 of February 8, 2017.

In addition, Act 106-2017 repealed the Voluntary Early Retirement Law, Act No. 211 of 2015, while creating an incentives, opportunities and retraining program for public workers.

On May 17, 2019, the Legislature passed Act No. 29 of 2019 (Act 29-2019), which addressed the severe financial crisis and liquidity shortage of the Puerto Rico municipalities by relieving them of their obligation to make PayGo payments to the Commonwealth under Act 106-2017. The Oversight Board has challenged the implementation and enforcement of Act 29-2019, as discussed in note 13 to the basic financial statements.

On January 30, 2020, the United States Court of Appeals for the First Circuit entered an opinion in the System Declaratory Relief Action upholding the Title III Court's determination that Bankruptcy Code section 552 prevents System bondholders' security interests from attaching to post-petition revenues

and finding that employers' contributions are not "special revenues" within the meaning of Bankruptcy Code section 902. As a result, the First Circuit has determined that System bondholders do not have a security interest in employer contributions received after the System's petition date.

For additional information regarding litigation related to Act 106-2017 and the PayGo system, refer to note 13 to the basic financial statements.

C. Debt Investigation Report

On August 2, 2017, the Oversight Board announced its intention, under its authority under PROMESA, to conduct an investigation to review the financial crisis and its contributors, and examine Puerto Rico's debt and its issuance, including disclosure and selling practices. To that end, the Oversight Board named a special investigation committee (the Special Investigation Committee), and conducted a competitive process to identify and select an independent firm to conduct the investigation. On September 13, 2017, the Oversight Board announced that the Special Investigation Committee retained an independent investigator to carry out a review of the Commonwealth's debt and its connection to the current financial crisis. The Oversight Board published the independent investigator's final report on August 20, 2018 (the Debt Investigation Report). The Debt Investigation Report provides an analysis of the historical and more recent macroeconomic and political factors contributing directly and indirectly to the Commonwealth's fiscal and economic crisis, the Commonwealth's municipal bond issuance process, and legislative efforts to restructure the debt, as well as the Oversight Board's investigative findings, policy recommendations, and identification of potential claims and matters for regulatory attention.

The Debt Investigation Report presented findings and recommendations on the following areas:

- GDB
- Puerto Rico Public Utilities (PREPA and PRASA)
- COFINA
- The System
- Puerto Rico's Budgeting, External Reporting, and Accounting Functions
- Calculation of the Constitutional Debt Limit
- Credit Rating Agencies (CRAs)
- Selling Practices for Puerto Rico-Related Bonds
- Puerto Rico's Government Ethics Framework
- Issuers' Use of Interest Rate Swaps
- Puerto Rico's Lack of a Clear Mechanisms for Validating Puerto Rico-Related Bonds Before They Issue
- Possession Tax Credit

The independent investigator also presented an overview of potential causes of action. The Debt Investigation Report in its entirety can be found on the Oversight Board's website.

On August 28, 2018, the Oversight Board appointed a special claims committee (the Special Claims Committee) and delegated to the Special Claims Committee any and all authority of the Oversight Board to review the findings in the Debt Investigation Report and to take any appropriate steps, including without limitation, recommending and/or initiating the negotiation and/or prosecution of claims based on the findings in the Debt Investigation Report on behalf of the Title III debtors for the benefit of all creditors and parties in interest in the Title III cases. The Special Claims Committee is entitled, in its full discretion, to determine the scope of any further action, including, but not limited to, additional investigation, as well as claims to be pursued, and to retain such advisors, consultants, attorneys or other advisors as it in its sole discretion sees fit. On October 25, 2018, the Special Claims Committee signed the contract with the firm that will provide those services. The System is cooperating with this investigation.

For more information on the adversary proceedings and other motions in the Title III cases commenced by the Special Claims Committee against the System, refer to note 13 to the basic financial statements.

D. Impact of Natural Disasters

On September 6, 2017 and September 20, 2017, Hurricane Irma and Maria respectively made landfall in Puerto Rico. The hurricanes causes unprecedented and catastrophic damage to the island, its people and its business. As result of Hurricane Maria, the System's headquarters suffered major damages. To continue operations, the System had to relocate its offices and entered into a lease agreement with the Puerto Rico Public Buildings Authority. As a result of the relocation, the System eliminated certain of its prior contracts related to auxiliary services and negotiated new ones.

On December 28, 2019, the first of many earthquakes shook Puerto Rico. Since then, there have been more than 400 earthquakes of magnitude 2 or greater on the Richter scale, including its most destructive earthquake in a century with a magnitude of 6.4. Based on preliminary estimates, these earthquakes have caused approximately $500 million in damages, and thousands of Puerto Rico residents have been forced into refugee camps, as they are afraid to sleep in homes that could collapse in an aftershock. According to a January 29, 2020 report published by the United States Geological Survey, the aftershocks in Puerto Rico are not expected to stop any time soon, with earthquakes of at least a magnitude of 3 or greater expected to occur daily over the next several months and thereafter weekly for years.

E. Former Governor Rosselló's Resignation and Government Transition under Governor Vázquez

On July 24, 2019, then-Governor Ricardo Rosselló Nevares announced his resignation as Governor of the Commonwealth effective August 2, 2019 at 5pm Atlantic Standard Time. Before his resignation became effective, then-Governor Rosselló appointed former resident commissioner Pedro Pierluisi as Secretary of State. After being confirmed by the House of Representatives (but not the Senate), Mr. Pierluisi was sworn in as acting Governor. On August 7, 2019, the Puerto Rico Supreme Court unanimously determined that Mr. Pierluisi was illegally sworn into office as Governor. As a result, Justice Secretary Wanda Vázquez was sworn in as Governor on August 7, 2019 to complete former Governor Rosselló's term through 2020 and, as of the date of these financial statements, currently serves as the Governor of the Commonwealth.

F. Oversight Board Files Joint Plan of Adjustment for the Commonwealth, the System, and PBA

On September 27, 2019, the Oversight Board – as representative of the Commonwealth, the System, and PBA in their respective Title III cases – filed its initial joint Title III plan of adjustment for the Commonwealth, the System and PBA [ECF No. 8765] (the Initial Plan) along with a disclosure statement related thereto [ECF No. 8765] (the Initial Disclosure Statement). On February 28, 2020, the Oversight Board filed its *Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al.* [ECF No. 11946] (the Amended Plan) and an amended disclosure statement related thereto [ECF No. 11947] (the Amended Disclosure Statement), which revised the Initial Plan to conform to the PSA.

The Amended Plan and Amended Disclosure Statement do not reflect the potential impact from the on-going outbreak of a respiratory illness caused by a novel (new) coronavirus known as COVID-19 first identified in Wuhan, Hubei Province, China. As a result, on March 23, 2020, the Oversight Board filed an urgent motion requesting to adjourn consideration of the Amended Disclosure Statement – currently scheduled for June 3 and June 4, 2020 – until further notice.

The Amended Plan and Amended Disclosure Statement remain subject to future amendments, particularly given the potential economic impact of COVID-19, and Title III Court approval, and it is not certain that the Title III Court will ultimately confirm the Amended Plan.

For further information, please refer to the publicly available Amended Plan and Amended Disclosure Statement, available at https://cases.primeclerk.com/puertorico/Home-DocketInfo.

G. Cybersecurity Attack

During January 2020, the System discovered that an external agent gained access to the System's Office 365 application. Apparently, the attacker impersonated a Finance Department's employee email account and sent electronic communications to multiple public corporations. In the aforementioned electronic communications, the attacker gave instructions to change deposit bank accounts. This event did not involve an intrusion in the System's accounting system, nor bank accounts, and System's participants personal information. This event is under state and federal investigation. As of the date of this financial statements four public corporations transferred funds to the fraudulent banks accounts of approximately $4.4 million. The System is still investigating the matter and contracted the services of GM Security Technologies to investigate in deep this incident and provide recommendations to the System's IT security policies. The System is also evaluating the effects of this cyber-attack and could include loss of revenues, increases in cybersecurity costs and an increase in insurance premiums, among others.

H. Coronavirus Pandemic

On March 15, 2020, the Governor of Puerto Rico issued the Executive Order #OE-2020-023 to make the necessary closures of the government and private companies to combat the effects of Coronavirus (COVID-19). The closure consists of a 14-days lock down and social distancing from March 16 to March 30, 2020. After this date, various executive orders were issued extending the closures of the government and private companies. The most recent was the Executive Order #OE-2020-048 issued on June 28, 2020 eliminates the lock down previously imposed and reduces the curfew hours imposed on the citizens of Puerto Rico and the control measures implemented to contain the spread of the COVID-19 through the island until July 22, 2020.

As the result of the Executive Order, the System closed its operations effective March 16, 2020 and our operations since such date are very limited. The effect of the closing on our operations cannot be reasonable estimated at this time but we believe this closing will have a limited impact in our financial statements and operations.

REQUIRED SUPPLEMENTARY INFORMATION

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Changes in the Employers' Net Pension Liability and Related Ratios – Pension Benefits (Unaudited)

Years ended June 30, 2017 and 2016

(Dollars in thousands)

		2017 Amount	2016 Amount
Total pension liability:			
Service cost	$	628,025	496,732
Interest		1,035,844	1,230,843
Differences between expected and annual experience		(248,414)	(252,405)
Changes in assumptions		(4,179,110)	3,853,693
Plan changes		(2,017,468)	—
Benefit payments, including refunds of contributions		(1,559,924)	(1,565,152)
Net change in total pension liability		(6,341,047)	3,763,711
Total pension liability – beginning		36,432,873	32,669,162
Total pension liability – ending (a)		30,091,826	36,432,873
Plan's fiduciary net position (deficit):			
Employer contributions – net of provision		921,537	779,477
Member contributions		320,095	333,633
Net investment income		28,155	870
Other income		56,626	110,201
Benefit payments, including refunds of member contributions		(1,559,924)	(1,565,152)
Administrative expenses		(24,358)	(27,670)
Interest on bonds payable		(198,084)	(196,211)
Other expenses		(387,015)	(32,761)
Net change in plan fiduciary net position		(842,968)	(597,613)
Total fiduciary net position (deficit) – beginning		(1,265,885)	(668,272)
Total fiduciary net position (deficit)– ending (b)		(2,108,853)	(1,265,885)
Employers' net pension liability – ending (a)-(b)	$	32,200,679	37,698,758
Plan's fiduciary net position (deficit) as a percentage of the total pension liability		(7.01)%	(3.47)%
Covered employee payroll	$	3,344,197	3,344,382
Employers' net pension liability as a percentage of covered employee payroll		962.88 %	1127.23%

Note: Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

See accompanying notes to required supplementary information and independent auditors' report.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT
OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Investment Returns – Pension Benefits (Unaudited)

Fiscal year ended (1)	Annual money-weighted rate of return, net of expenses
June 30, 2017	6.8 %
June 30, 2016	6.7
June 30, 2015	4.2

(1) Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

See accompanying notes to required supplementary information and independent auditors' report.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Employers' Contributions – OPEB (Unaudited)

(Dollars in thousands)

Fiscal year ended (1)	Annual required contributions	Actual employers' contributions	Percentage of contribution
June 30, 2017	$ 105,859	91,280	86.2 %
June 30, 2016	107,739	93,728	87.0
June 30, 2015	103,878	97,374	93.7
June 30, 2014	88,508	102,085	115.3
June 30, 2013	154,999	91,823	59.2
June 30, 2012	133,654	94,664	70.8
June 30, 2011	129,395	93,851	72.5
June 30, 2010	128,294	88,599	69.1

(1) The System's annual required contributions for the year ended June 30, 2017 and 2016 were determined by the actuarial valuation at beginning of year that was updated to roll forward the funded status to June 30, 2017 and 2016 and assuming no liability gains or losses. Prior year actuarial valuations were made using end-of-year census data.

See accompanying notes to required supplementary information and independent auditors' report.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Funding Progress – OPEB (Unaudited)

(Dollars in thousands)

Actuarial valuation date (1)	Actuarial value of plan assets	Actuarial accrued liability (AAL)	Unfunded Actuarial accrued liability (UAAL)	Funded ratio	Annual covered payroll	UAAL percentage of annual covered payroll
June 30, 2017	$ —	1,138,309	1,138,309	— %	$ 3,344,197	34.0 %
June 30, 2016	—	1,349,503	1,349,503	—	3,344,382	40.4
June 30, 2015	—	1,428,788	1,428,788	—	3,319,280	43.0
June 30, 2014	—	1,438,475	1,438,475	—	3,489,096	41.2
June 30, 2013	—	1,482,879	1,482,879	—	3,489,096	42.5
June 30, 2012	—	2,120,970	2,120,970	—	3,570,339	59.4
June 30, 2011	—	1,758,389	1,758,389	—	3,666,402	48.0
June 30, 2010	—	1,699,373	1,699,373	—	3,818,332	44.5

(1) The System's OPEB funded status as of June 30, 2017 and 2016 were determined by the actuarial valuation at beginning of year that was updated to roll forward the funded status to June 30, 2017 and 2016 and assuming no liability gains or losses. Prior year actuarial valuations were made using end-of-year census data.

See accompanying notes to required supplementary information and independent auditors' report.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Required Supplementary Information

June 30, 2017

(1) Changes in Benefits Terms

There have not been any changes in plan provisions since the prior valuation.

(2) Changes in Assumptions

Actuarial assumptions are revised periodically to more closely reflect actual, as well as anticipated future experience.

Based on the depletion of System assets during recent fiscal years and the implementation PayGo under Act 106-2017, the investment return assumption is no longer applicable to the System as of June 30, 2017. As of June 30, 2016, the investment return assumption was 6.55% per annum, net of investment expenses and based on the System's investment policy, including target asset allocation and expectations regarding the loan portfolio and the System's actuary's capital market assumptions as of June 30, 2016.

The projected mortality improvement scale was updated from Scale MP-2016 to Scale MP-2017, which was published by the Society of Actuaries in October 2017. Also, as Scale MP-2015 is a two-dimensional mortality scale, the base mortality rates for the post-retirement mortality assumption were set to the 2010 rates – the central year of the 2007 to 2012 System experience study upon which the rates were based. In addition, the pre-retirement mortality rates were also updated to reflect updated mortality tables published by the Society of Actuaries.

The asset basis for the date of depletion projection is the System's fiduciary net position (the gross assets plus deferred outflows of resources less the gross liabilities, including the senior pension funding bonds payable, plus deferred inflows of resources). On this basis, the System's fiduciary net position was exhausted in the fiscal year 2015.

In addition, the date of depletion projection of the actuarial report does not include any amounts from the Additional Uniform Contribution required by Act No. 32 because of actual fiscal and budgetary financial difficulties with continued budget deficits and liquidity risks of the Commonwealth, public corporations and the municipalities and in the event that their financial condition does not improve in the near term. In addition, Act 106-2017 eliminated the Additional Uniform Contribution.

The System's fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the tax free municipal bond index (Bond Buyer General Obligation 20-Bond Municipal Bond Index) was applied to all periods of projected benefits payments to determine the total pension liability.

The discount rate used to determine the total pension liability increased from 2.85% at June 30, 2016 to 3.58% at June 30, 2017, determined under GASB Statement No. 67. Under GASB Statement No. 67, the investment return assumption is an input that is used in the calculation of the single equivalent interest rate that is used to discount these benefits to determine the Total Pension Liability. Under former GASB Statements No. 25 and No. 27, the investment return assumption was used to discount all projected Basic System Pension Benefits and System Administered Pension Benefits to determine the Actuarial Accrued Liability. For fiscal years 2008 to 2010 and for fiscal years 2011, 2012 and 2013, the discount rates determined under GASB Statements No. 25 and No. 27 were 7.50%, 6.40%, 6.00% and 6.40%, respectively.

Also, the valuations for fiscal year 2017 and 2016 reflect a salary freeze until July 1, 2017 due to Act No. 66 and the current economic conditions in Puerto Rico.

(3) Changes in Actuarial Methods since the prior Valuation

There have not been any changes in methods since the prior valuation.

In fiscal years 2017 and 2016, the census data collection date is as of beginning-of-fiscal-year. The total pension liability at end of year was determined by actuarial valuation as of the census data collection date at beginning-of-year and was then projected forward to end-of-year, using roll-forward methods and assuming no liability gains or losses.

The June 30, 2017, actuarial valuation reflects a decrease of $5,498 million in the net pension liability, mainly related to changes in assumptions of $4,179 million, as a result of an increase in the discount rate as required by GASB Statement No. 67 from 2.85% in fiscal year 2016 to 3.58% in fiscal year 2017, and the effect of plan changes of approximately $2,017 million.

(4) Method and Assumptions Used in the System's Actuarial Valuation

The following actuarial methods and assumptions were used in the System's actuarial valuation of June 30, 2017:

Actuarial cost method	Entry age normal
Asset valuation method	Market value of assets
Inflation	Not applicable
Municipal bond index	3.58%, as per Bond Buyer General Obligation 20-Bond Municipal Bond Index
Projected salary increases	3.00% per year. No compensation increases are assumed until July 1, 2021 as a result of Act No. 3 of 2017, four year extension of the Act 66-2014 and the current general economy.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT
OF THE COMMONWEALTH OF PUERTO RICO
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Notes to Required Supplementary Information

June 30, 2017

Mortality	Pre-retirement Mortality: For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2017 from the 2006 base year, and projected forward using MP-2017 on generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2017 from the 2006 base year, and projected forward using MP-2017 on generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127. Post-retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2017 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date. Post-retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2017 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.